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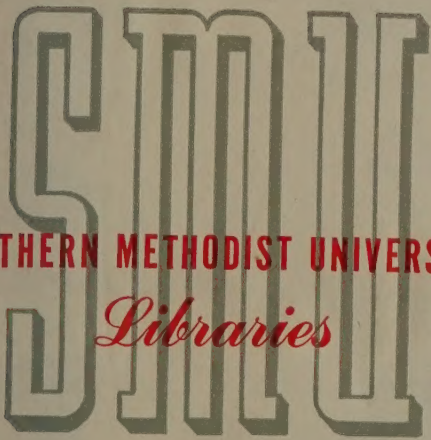

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THE

ELEMENTS

OF

BANKING

BY

HENRY DUNNING MACLEOD, M.A.

OF TRINITY COLLEGE, CAMBRIDGE, AND THE INNER TEMPLE, BARRISTER-AT-LAW; SELECTED BY THE ROYAL COMMISSIONERS FOR THE DIGEST OF THE LAW TO PREPARE THE DIGEST OF THE LAW OF BILLS OF EXCHANGE, BANK NOTES, ETC.; HONORARY MEMBER OF THE JURIDICAL SOCIETY OF PALERMO AND OF THE SICILIAN SOCIETY OF POLITICAL ECONOMY; CORRESPONDING MEMBER OF THE SOCIÉTÉ D'ÉCONOMIE POLITIQUE OF PARIS, AND OF THE ROYAL ACADEMY OF JURISPRUDENCE AND LEGISLATION OF MADRID

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PREFACE.

THE PURPOSE of the following work is to exhibit in the simplest language possible the mechanism of the great system of CREDIT, BANKING, and the FOREIGN EXCHANGES, and to explain the reasoning upon which is founded the Principle of Currency, which I published in 1856—THAT THE TRUE METHOD OF CONTROLLING CREDIT AND THE PAPER CURRENCY IS BY ADJUSTING THE RATE OF DISCOUNT BY THE BULLION IN THE BANK AND THE STATE OF THE FOREIGN EXCHANGES—which is now universally acknowledged to be the true one, and which is now adopted by the Bank of England and by every bank in the world.

H. D. M.

PREFACE TO THE SEVENTH EDITION.

THE BILLS OF EXCHANGE ACT, 1882, has been added to this edition, which it is hoped will make the work still more useful for students in Banking.

H. D. M.

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THE

ELEMENTS OF BANKING.

CHAPTER I.

1. BANKING is a department of the great Science of ECONOMICS, which is the Science of Exchanges, or of Commerce in its widest extent.

The word ECONOMICS is derived from the Greek *οἶκος*, which is the technical term in Attic law for Property of all sorts and descriptions, whatever its nature be, and *νόμος*, a law. Hence the word Economics means the Science which treats of the Laws which govern the relations of Exchangeable Quantities.

Banking, as will be explained more fully hereafter, is that department of the Science of Economics which treats of the exchanges of Money for Credit, and of Credit for Credit.

On the Definition of WEALTH, *or an* ECONOMIC QUANTITY.

2. Aristotle says:—"We call WEALTH everything whose value is measured by Money," or rather, we may say everything which is exchangeable, as Money itself is an Exchangeable Quantity.

Aristotle's definition of Wealth is now generally accepted by modern Economists as the true one, thus Mill says:—"Everything forms therefore a part of Wealth which has power of purchasing." In these passages we find what the fundamental

general conception of Wealth is—it is anything whatsoever, whatever its nature be, which is exchangeable—which may be bought and sold—everything which can be exchanged separately and independently of anything else.

The only criterion, then, of anything being Wealth is—can it be valued? Can it be bought and sold? Can it be exchanged separately and independently of anything else?

This criterion may seem very simple, and it is now generally adopted as the true one; but in fact to apply it properly, to discern what is and what is not, separate and independent exchangeable property, requires a thorough knowledge of some of the most abstruse branches of Law and Commerce.

On the Three Species of Wealth, *or* Economic Quantities.

3. Having, then, obtained a good general idea or fundamental conception of Wealth, or of an Economic Quantity, we have now to consider how many distinct orders of Quantities there are which satisfy this definition.

1. There are material things like land, houses, cattle, corn, timber, money, and innumerable other things of that nature, which everyone admits to be Wealth.

2. A person may sell his Labour or services in many capacities, as a ploughman, a bricklayer, artisan, advocate, physician, engineer, professor, etc., and when a man sells his Labour for Money, its Value is measured by Money as precisely as if it were corn or timber. Hence Labour is Wealth by Aristotle's definition.

3. There is, besides, a third order of Quantities which can be bought and sold. If a person had 100,000*l.* of Bank of England notes, or if he had a million of money, as is commonly said, in the Funds, or in shares of the London and Westminster Bank, he would be considered wealthy. These things, therefore, are a form of Wealth, distinct no doubt from the other two, but yet they are bought and sold for money; therefore they satisfy Aristotle's definition of Wealth. They are, however, merely abstract Rights: and there are many other kinds of Rights which

may be bought and sold, such as Copyrights, Patents, the Good-will of a business, an Advowson, etc. All these are mere abstract Rights, quite separate and distinct from any particular money, and yet they are all valuable Property—they may all be bought and sold—and, therefore, they all satisfy Aristotle's definition of Wealth.

We have therefore found *three* distinct orders, or species, of Quantities which satisfy Aristotle's definition of Wealth; and reflection will show that there is nothing whatever which may be bought and sold which does not fall under one of these three orders of Quantities: either it is material: or it is some kind of Labour: or it is an abstract Right. Hence there are three orders of quantities, and only three, which satisfy Aristotle's definition of Wealth, which may be symbolised by the words MONEY, LABOUR, and CREDIT—MONEY being taken as the type of all material and corporeal things; LABOUR as the type of services of all sorts; and CREDIT as the type of Rights of all sorts; and all exchanges, that is all commerce, consist of the exchanges of these three orders of Quantities.

That all material things which can be bought and sold are now admitted to be Wealth is so well known that we need not waste time in proving it.

All modern Economists since Adam Smith admit that the abilities, skill, energy, capacity, character, and personal qualities of the people of a country are Wealth—because they can buy and sell their use, and make an income by their exertion.

Smith enumerates as part of the Wealth or fixed Capital of a country, "the acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expense, which is a Capital fixed and realised, as it were, in his person. These talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs."

So also Say says:—"He who has acquired a talent at the price of an annual sacrifice, enjoys an accumulated Capital, and this Wealth, though immaterial, is nevertheless so little fictitious, that he daily exchanges the exercise of his art for gold and

silver."—"Since it has been proved that immaterial property such as talents and acquired personal abilities, form an integral part of social Wealth."

Senior also says:—"If the question whether personal qualities are articles of Wealth had been proposed in classical times it would have been too clear for discussion. . . . They perish indeed by his death, and may be impaired or destroyed by disease, or rendered valueless by any changes in the custom of the country which shall destroy the *demand* for his services; but subject to these contingencies, they are Wealth, and Wealth of the most valuable kind. The amount of revenue derived from their exercise in England far exceeds the rental of all the lands in Great Britain."

So also:—"Even in our present state of civilisation, which high as it appears by comparison, is far short of what may be easily conceived, or even of what may be confidently expected, the INTELLECTUAL and MORAL CAPITAL of Great Britain far exceeds all the Material Capital, not only in importance, but in productiveness. The families that receive mere wages probably do not form a fourth of the community; and the comparatively larger amount of the wages even of these is principally owing to the capital and skill with which their efforts are assisted and directed by the more educated members of the society. Those who receive mere rent, even using that word in its largest sense, are still fewer; and the amount of rent, like that of wages, principally depends on the knowledge by which the gifts of nature are directed and employed. The bulk of the national revenue is profit, and of that profit the portion which is merely interest on Material Capital, probably does not amount to one-third. The rest is the result of PERSONAL CAPITAL, or, in other words, of education."

So Mill says:—"The skill and the energy, and the perseverance of the artisans of a country are reckoned part of its Wealth no less than their tools and machinery." And why not the skill and energy and the perseverance of other classes as well as artisans? He also says:—"Acquired capacities which exist only as a means, and have been called into existence by labour, fall exactly as it seems to me within that designation."

Now the skill, energy, character, and abilities of the people of a country may be used as Wealth in two ways, as we shall show at greater length hereafter: the one by their direct exercise in rendering some service which is termed Labour; and secondly, by purchasing commodities, with the view of selling them again with a profit, by means of a PROMISE TO PAY out of the future profits, which is termed CREDIT. It is with the latter method of utilising personal qualities that we are chiefly concerned in this work.

We now come to the third species of Economic Quantities—namely, RIGHTS.

It is laid down as a fundamental definition in Roman law—

"Under the name of Wealth (*Pecunia*) not only ready money, but everything both immovable and movable, both corporeal and RIGHTS (*Jura*), are included."

And there are several other passages expressly declaring that Rights are included under the term '*Res*' and '*Bona*,' or goods and chattels; we may quote one from Ulpian:—

"We are accustomed to buy and sell DEBTS payable on a certain day or at a certain event. For that is WEALTH which may be bought and sold."

So Sir Patrick Colquhoun, in his "Summary of the Roman Civil Law," says—"The first requisite of the consensual contract of *emptio et venditio* is a MERX or object to be transferred by the seller to the buyer, and the first great requirement is that it should be *in commercio*, that is, capable of being freely bought and sold. Supposing such to be the case, it matters not whether it be an immovable or a movable, corporeal or incorporeal, existent or non-existent, certain or uncertain, the property of the vendor or another: thus a horse, a RIGHT OF ACTION, servitude, or *thing to be acquired*, or the acquisition whereof depends on chance.

"A purchaser may buy of a farmer the future crop of a certain field. Wine which may grow the next year in a certain vineyard may be bought at so much a pipe, or a certain price may be paid irrespective of quantity or quality, and the price would be due though nothing grew, or for whatever did grow. In the second case the bargain is termed *emptio spei*, and in the

first and last *emptio rei speratæ*, which all such bargains are presumed to be in cases of doubt.

"The cession of a RIGHT OF ACTION being legal in the Roman law, the RIGHT of A to receive a debt due by B may be sold to C."

Thus we see that a RIGHT OF ACTION—which is, as we shall show hereafter, what is termed a CREDIT or a DEBT in Law, Commerce, and Economics—is expressly included under the title Wealth, Goods, and Merchandise, in Roman Law.

It is exactly the same in every system of Law. It is one of the elementary principles of law that a RIGHT OF ACTION is a species of Property. Thus Mr. Williams says:—"*Choses-in-action* having now become assignable, became an important kind of personal Property."—"A legal *chose-in-action* constitutes a valuable personal Property." So also Mr. Justice Byles, in speaking of Bills and Notes, which are Rights of action recorded on paper, says:—"This species of PROPERTY is now in aggregate value inferior only to the land or Funded Debt of the kingdom." This sentence was written more than forty years ago, and we may safely assert that the mass of CREDIT in circulation at the present time greatly exceeds the Funded Debt. So also a RIGHT OF ACTION is included under the term "goods and chattels" or "effects" in an Act of Parliament.

We have said enough now to show that a RIGHT OF ACTION, or a Credit, or a Debt, is included under the title of Wealth, Goods and Chattels, Property, or Merchandise, because it may be bought and sold, in every system of law. As we shall have to explain the nature of this species of property at greater length hereafter, we shall say no more about it here, so as not to say the same things twice over. All that we want to impress upon the reader at present is, that RIGHTS of all sorts are a distinct order of Wealth or Exchangeable Quantities.

4. Hence there are *three* distinct orders of Exchangeable Quantities, or Wealth, as it is technically termed, which may be typified by the terms MONEY, LABOUR, and CREDIT: and all Exchanges, that is, all Commerce, consist in the exchanges of these three orders of Economic Quantities. Hence it is easily seen that there are SIX different kinds of Exchange or Commerce—

1. The exchange of a material product for a material product: such as so much money for so much corn, timber, books, furniture, etc.

2. The exchange of a material product for a service or labour: as when a person's labour is paid for in money or any other material product.

3. The exchange of one kind of service or labour for another kind of service or labour.

4. The exchange of so much labour or service for a Right of action, or a Credit: as when labour is paid for in Bank Notes, Cheques, etc.

5. The exchange of a material product for a right of action, or credit: as when money or merchandise is exchanged for a bank note, cheque, or any form of credit.

6. The exchange of one Right for another Right: such as when a banker buys one Right of action, such as a Bill of Exchange, by creating another Right of action, either in the form of his own Notes or by means of a Credit in his books.

These Six species of exchange comprehend all commerce in its widest extent, and in all forms and varieties; and they constitute the great Science of Economics, or the Science which treats of the exchanges of property.

Out of all these Six species of exchange in their different varieties, the business of Banking consists in two only, which are included under the two last species above enumerated. It consists in the exchange of—

1. Money for Rights of Action, or Credit, or Debts.

2. One Right of Action for another Right of Action, or of one kind of Credit, or Debt, for another kind of Credit, or Debt.

And it is this department of the complete science of Economics which is the subject matter of this work.

On the Meaning of the Word Property.

5. Having thus found that there are three distinct species of Exchangeable or Economic Quantities, typified by Money, Labour, and Credit, our next object is to find a general term which will

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include them all, and this general term we shall find in the word PROPERTY. And when we understand the meaning of the word PROPERTY, we shall find that it will throw a flood of light over the whole of Economic Science, and in fact it is wholly impossible to understand the science of Banking without it.

Most persons in modern times, when they speak or hear of Property, think of some material things, such as money, houses, lands, corn, timber, cattle, etc. But that is not the true meaning of the word Property. PROPERTY in its true and original sense is not a material thing, but the RIGHT to something.

In the times of early Roman jurisprudence the absolute ownership in anything, as well as the thing itself, was called *Mancipium*, because it was supposed to be acquired by the strong hand, and if not kept with a very firm grasp, would probably be lost again.

As civilisation advanced, the ownership of things was held to be centred in the family or *Domus*; but the head of the house alone exercised all *Rights* over it; hence this *Right* was called *Dominium*; no other member of the family could have any individual Right. *Dominium* was then adopted in Roman law as the term for the absolute ownership of anything.

Afterwards, in the days of the early emperors, the extreme rigour of the *patria potestas* was relaxed, and the individual members of the family were allowed to have exclusive Rights to things; and then this right was called PROPRIETAS, because it was restricted to the individual, and excluded every one else. "Dominium id est Proprietas," says Neratius, a jurist of the age of Trajan and Hadrian.

Proprietas in Roman law, therefore, meant Ownership, or a person's Right to something exclusively of any one else. We do not believe that the word *Proprietas* in Roman law was ever applied to the things themselves.

The word Property was always used exclusively in this sense by early English writers. Thus grand old Wycliffe says: "They made Property of ghostly goods, where no Property may be; and professed to have no Property in worldly goods, where alone Property is lawful." So Bacon invariably uses Property to mean the *Right* to a thing. He says one of the uses of the

law, "is to dispose of the Property of their goods and lands." He explains the various methods by which "Property in goods and chattels may be acquired." So he speaks of the "Interest or Property of a timber tree."

And we might multiply examples to any extent, which, however, would be superfluous.

Property, therefore, in its true sense, means solely a Right, Interest, or Ownership; and consequently to call goods or material things Property is as great an absurdity as to call them Right, Interest, or Ownership.

To call the goods themselves Property is comparatively speaking a modern corruption, and we cannot say when it began.

Many words in English law which are usually supposed to mean things, in reality mean Rights to things. Thus an *Annuity* is not the actual money paid, but the *Right* to demand a series of payments, and is quite separate from the money itself; the *Funds* are *Rights* in the persons of the creditors of the nation to demand a series of payments from the government. *Tithes* are not the actual produce of the earth rendered, but the *Right* to demand them. *Rent* is not the sum actually paid for the use of lands, houses, etc., but the *Right* to demand a payment for their use. A *Debt* is not the money owed by the debtor, but the *Right* to demand it from him, and so on in many other cases.

Thus when we speak of landed Property, house Property, real Property, personal Property, literary Property, funded Property, we mean Rights to land, Rights to houses, Rights to realty, Rights to personalty, Rights to payments from the nation, Rights to the profits of literary works, and so on.

6. Many eminent jurists have observed that jurisprudence has nothing to do with the things themselves, but only with the Rights to them. Thus when a person has damaged any goods belonging to another person, it is not for the actual damage done to the goods that an action lies; but for the injury done to the person; that is for the infringement of his legal Right (*injuria*), to the enjoyment and use of the goods. If the goods belong to no person there is no injury and no Right of action.

It is precisely the same in Economics; it has nothing to do with material substances, but only with the *Rights* to them, and

with the Exchanges of those Rights. And the object of the science of Economics is to investigate the laws which govern the proportions in which these Rights will exchange for each other.

7. Property, then, being clearly understood to be a Right, there are two classes of Property which are the subject of sale or exchange with which we are concerned in this work :—

1. There may be Property in some material physical substance which is already in existence, and which has already come into the possession of the proprietor, such as lands, houses, furniture, money, etc. These things are in a complete state of existence. This species of Property is called in English and Roman law Corporeal Property, because it is the Property, or Right in some specific matter. Hence this species of Property is usually called Corporeal, or Material Property, or Corporeal, or Material Wealth.

2. We may have a Property or Right wholly severed and separated from any specific *corpus* or matter in possession. It may not even be in existence at the present time; or it may be some one else's Property at the present time, and only come into our possession at some future time.

Thus those who possess lands, cattle, fruit trees, etc., have the Property in their future produce. Now though the produce itself will only come into existence at a future time, the Property or Right to it, when it does come into existence, is present, and may be bought and sold like any material Property.

So we may have the Right or Property to demand a sum of Money from some person at a future time. That sum of Money may no doubt be in existence, but it is not in our possession; it may not even be in the possession of the person bound to pay it. It may pass through any number of hands, and effect any number of exchanges before it is paid to us. But yet our Property to receive it is present and existing, and we may sell and transfer that Property to any one else for Money.

A landlord lets a house to a tenant. In exchange for the Right to use the house the tenant gives the landlord the Right to demand a series of payments every three months. This Right is the Rent. Now though the tenant will only make these pay-

ments at definite future intervals, and no one can tell where the actual money is which will be paid, or how many hands it may pass through before it is paid, yet the landlord's Right to demand them is present, and he may sell and transfer that Right to any one else.

So if a merchant sells goods to a trader in exchange for his Promise to pay three months after date, that Promise to pay is a Right or Property which may be bought and sold, though no one can tell where the money is which will pay the debt.

The state requires a sum of money for some public purpose: in exchange for a sum of money paid down, it agrees to give its creditors a perpetual Annuity, or Right to demand a certain sum at fixed times for ever. Now no one can tell where the money is which the state will pay at these future times. It may not even be in existence at the present time, it may be still in the mine. But the Rights of the creditors to demand these payments are present and existing, and may be bought and sold like any other material property. These Rights are called the Funds.

This species of Property, or abstract Right, wholly separated from any specific *corpus* or matter, is in Roman and English law called Incorporeal Property.

But each species of Property may be bought and sold, transferred or exchanged, and therefore is called *Pecunia*, *Res*, *Bona*, *Merx*.

8. There are many kinds of Corporeal Property and many kinds of Incorporeal Property, but the only kind of Corporeal Property with which we are concerned in this work is Money, and the only kind of Incorporeal Property we are concerned with is the Right to demand a sum of money from some person. This kind of Incorporeal Property is, as we shall afterwards show, termed CREDIT or DEBT, in Law, Commerce, and Economics. The business of Banking consists exclusively in the exchange of Money for Credit, and of Credit for Credit.

Definition of VALUE.

9. If at any time any Economic Quantity, A, can be exchanged for any other Economic Quantity, B, then the Quantity A

is termed the VALUE of B, and B is similarly termed the VALUE of A. Now as each of the three species of Economic Quantities may be exchanged for either of the others, any Quantity may have value in terms of the others. Suppose that at any time 1 oz. of gold will exchange for 15 oz. of silver, then it is said 1 oz. of gold is of *the* VALUE *of* 15 oz. of silver, which is simply this equation :—

1 oz. gold = 15 oz. silver.

Hence Value may be said to be the sign of equality between any two Economic Quantities. As Aristotle says :—"*Now the term Value is used in reference to* EXTERNAL GOODS."

So it is said in Roman law :—"*The* VALUE *of a thing is what it can be sold for.*"

We have then this definition—

The VALUE *of any Economic Quantity is any* OTHER *Economic Quantity for which it can be exchanged.*

Hence any Economic Quantity has as many Values as Quantities it can be exchanged for : and of course, if it can be exchanged for nothing, it has no Value. This shows that there can be no such thing as absolute Value, or universal Value, because there is nothing probably which can be exchanged universally throughout the world.

Value, therefore, by the very definition, like distance or an equation, requires two objects. We cannot speak of absolute or intrinsic distance, or equality. A single object cannot be distant, or be equal. If we are told that an object is distant, or equal, we immediately ask—Distant from what? or equal to what? So it is equally clear, that a single object cannot have value. We must always ask—*Value in what?* And it is clear that, as it is absurd to speak of a single object having absolute or intrinsic distance, or having absolute or intrinsic equality ; so it is equally absurd to speak of an object having absolute or intrinsic Value.

This must suffice here for the definition of Value ; we shall have to enter somewhat more fully into the theory of value in the next chapter.

On MONEY *and* CREDIT.

10. In the primitive ages of the world we have abundant evidence that there was no such thing as Money. When persons traded, they exchanged the products directly with one another. Thus we have in Iliad, vii. 468 :—

> "From Lemnos' Isle a numerous fleet had come
> Freighted with wine. . . . .
> . . . . All the other Greeks
> Hastened to purchase, some with brass, and some
> With gleaming iron: some with hides,
> Cattle, or slaves."

This exchange of products against products is termed BARTER, and the inconveniences of this mode of trading are palpable. What haggling and bargaining it would require to determine how much leather should be given for how much wine, how many oxen, or how many slaves! Some ingenious person would then discover that it would greatly facilitate traffic, if the things to be exchanged were referred to some common measure. There are several passages in the Iliad and Odyssey which show that even while traffic had not advanced beyond barter, such a standard of reference was used. We find that various things were frequently estimated as being worth so many *oxen*. Thus in Iliad, ii. 448, Pallas's shield, the Ægis, had 100 tassels, each of the value of 100 oxen. In Iliad vi. 234, Homer laughs at the folly of Glaucus, who exchanged his golden armour, worth 100 oxen, for the bronze armour of Diomede, worth nine oxen. In Iliad, xxiii. 703, Achilles offers as a prize to the conqueror in the funeral games in honour of Patroclus, a large tripod, which the Greeks valued among themselves at twelve oxen, and to the loser a female slave, which they valued at four oxen. But it must be observed that these oxen did not pass from hand to hand like Money. The state of barter still continued, as it is quite common at the present day when the precious metals are used as Money, to exchange goods according to their Value in

Money. Such a state of things in no way implied Money, or Currency, or Circulating Medium.

The necessity for Money arises from a somewhat different cause. So long as the things exchanged were equal in value there would be no need for Money. If it happened that the exchanges of products or services among persons were equal, there would be an end of the matter. But it would often happen that when one person required some product or service from his neighbour, that neighbour would not require an equal amount of product or service at the same time, or, perhaps, even none at all. If then a transaction took place with such an *unequal* result, there would remain a certain amount or difference of product due from the one to the other, and this would constitute a DEBT —that is to say, a Right or Property would be created in the person of the creditor to demand this balance of product at some future time, and at the same time a Duty is created in the person of the debtor to pay the product, or perform the service, when required.

Now among all nations who exchange, this result must inevitably happen: persons want something from others when those other persons want nothing from them. And it is easy to imagine the inconveniences which would arise if persons never could get anything they wanted, unless the persons who could supply these things wanted something in return at the same time.

11. In process of time all nations hit upon this plan; they fixed on some material substance which they agreed to make always exchangeable among themselves to represent the amount of *Debt*.

That is, that if an unequal exchange took place among persons with a balance due from one to the other, then an amount of this universally exchangeable merchandise was given to make up the balance, so that the person to whom the balance was due might get an equivalent from some other person.

Suppose a wine-dealer wants a quantity of bread from a baker; but the baker wants only one half the equivalent quantity of wine from the wine-dealer, or, perhaps, even none at all.

The wine-dealer takes the bread from the baker and gives him in exchange as much wine as he wants, and makes up the balance by giving an amount of this generally exchangeable merchandise; or if he wants no wine at all the wine-dealer gives him the full Value or equivalent of the bread in this merchandise.

The baker perhaps wants shoes and meat but not wine. Having received this merchandise from the wine-dealer, he goes to the shoemaker and butcher, and obtains the equivalent of the product he sold to the wine-dealer in the form of shoes and meat.

Thus is seen the fundamental nature of *Money*, as this universally exchangeable merchandise is called: its especial and particular purpose is to represent the *Debts* that arise from unequal exchanges among men, and to enable persons to obtain the equivalent of the service they have done to one person from some one else.

12. Many species of merchandise have been used by different nations, but however different in their form, this is the universal want which they supplied. And the true nature of Money is to be a Right, or Title, to demand something from others.

That this is the true nature of MONEY, has been seen by many writers; thus Aristotle says:—

"But with regard to a future exchange (if we want nothing at present, that it may take place when we do want something) MONEY is, as it were, our SECURITY. For it is necessary that he who brings it should be able to get what he wants."

So an old pamphleteer in 1710 saw the same truth. He says:—"Trade found itself unsufferably straightened and perplexed for want of a general specie of a complete intrinsic worth as the medium to *supply the defect of exchanging*, and to make good the balance, where a nation, or a market, or a merchant demands of another a greater quantity of goods than either the buyer had goods to answer, or the seller had occasion to take back."

So Baudeau, one of the most eminent of the Physiocrates, or first school of Economists, says:—

"This coined Money in circulation is nothing, as I have said

elsewhere, but effective Titles on the general mass of useful and agreeable enjoyments which cause the well being and propagation of the human race.

"It is a kind of a Bill of Exchange, or Order payable at the will of the bearer.

"Instead of taking his share in kind of all matters of subsistence, and all raw produce annually growing, the sovereign demands it in Money, the effective Title, the Order, the Bill of Exchange."

So Smith says:—"A guinea may be considered as a Bill for a certain quantity of necessaries and conveniences upon all the tradesmen in the neighbourhood."

So Henry Thornton says:—"Money of every kind is an Order for goods. It is so considered by the labourer when he receives it, and is almost instantly turned into money's worth. It is merely the instrument by which the purchaseable stock of the country is distributed with convenience and advantage among the several members of the community."

This great fundamental truth was also very clearly expounded by Bastiat; he says—"This is now the time to analyse the true function of Money, leaving out of consideration the miners and importation.

"You have a crown piece. What does it mean in your hands? It is, as it were, the witness and the proof, that you have at some time done some work which instead of profiting by, you have allowed society to enjoy, in the person of your client. This crown piece witnesses that you have rendered a service to society, and moreover states the Value of it. It witnesses besides that you have not received back from society a real equivalent service as was your right. To put it in your power to exercise this Right when and how you please, society by the hands of your client has given you an ACKNOWLEDGMENT, a TITLE, an ORDER *of the state*, a TOKEN, a CROWN-PIECE, in short, which does not differ from TITLES of CREDIT, except that it carries its Value in itself (?) and if you can read with the eye of the mind, the inscription it bears you can distinctly see these words, *Pay to the bearer a service equivalent to that which he has rendered to society. Value received and stated, proved and measured by that which is on me*

"After that you cede your Crown piece to me. Either it is a present, or it is in exchange for something else. If you give it to me as the price of a service, see what follows: your account as regards the real satisfaction with society is satisfied, balanced, closed. You rendered it a service in exchange for a Crown piece, you now restore it the Crown piece in exchange for a service: so far as regards you the account is settled. But I am now just in the position you were before. It is I now who have done a service to society in your person. It is I who have become its Creditor for the value of the work which I have done for you, and which I could devote to myself. It is into my hands, therefore, that this TITLE OF CREDIT should pass, the witness and the proof of this social Debt."

"It is enough for a man to have rendered services, and so to have the Right to draw upon society by the means of an exchange for equivalent services. That which I call the means of exchange is MONEY, BILLS OF EXCHANGE, BANK NOTES, and also Bankers. Whoever has rendered a service, and has not received an equal satisfaction is the bearer of a WARRANT, either possessed of Value, like Money, or of CREDIT, like Bank Notes, which gives him the Right to draw from society when he likes, where he likes, and under what form he will, an equivalent service."

So Mill says—"The pounds or shillings which a person receives weekly, or yearly, are not what constitute his income; they are a sort of TICKET or ORDER, which he can present for payment at any shop he pleases, and which entitle him to receive a certain value of any commodity that he makes choice of. The farmer pays his labourers, and the landlord in these TICKETS as the most convenient plan for himself."

Thus all these writers are absolutely agreed as to the fundamental nature of MONEY: and this may be stated as the fundamental axiom of Monetary Science—The Quantity of money in any country represents the amount of DEBT which there would be if there was no MONEY; and consequently WHERE THERE IS NO DEBT THERE CAN BE NO MONEY. We have shown elsewhere that the greatest monetary disasters the world ever saw have been produced by violating these fundamental axioms.

13. Different nations have adopted different substances to

represent this universal want. The Hebrews we know used silver: although no money was used at the period of the Homeric poems, copper skewers were some time afterwards employed as money in Greece, which were superseded by the silver coinage of Pheidon. The Ethiopians used carved pebbles, and the Carthaginians leather discs, with some mysterious substance sewed up in them. Throughout the islands of the Eastern Ocean, and many parts of Africa and India shells are still used. In Thibet, and some parts of China little blocks of compressed tea serve as money. Salt is used in Abyssinia: and in the oasis of Africa a certain measure of dates, called a *hatia*, serves as money. In the last century dried cod was used in Newfoundland: sugar in the West Indies: and tobacco in Virginia. Smith says that in his day a village in Scotland used nails. In some of the American colonies powder and shot; in Campeachy logwood; and among the North American Indians belts of wampum served the purpose of Money. It is said that in 1867 the proprietors in Virginia were reduced to such necessity as to use dried squirrel skins as money. And no doubt many other things have been used by other nations.

But when we consider the purposes for which Money is intended, it is easily seen that no substance possesses so many advantages as a METAL. The use of Money being to preserve the record of services being due to the owner of it for any future time, it is clear that it should not be liable to alter by time. A Money of dried cod would not be likely to keep very long, nor would it be very easily divisible. One of the first requisites of Money is that it should be divisible into very small fragments, so that its owner should be able to get any amount of services at any time he pleases. Taking these requisites into consideration, it is manifest that there is no substance which combines these qualifications so well as METAL. It is uniform in its texture, and it can be divided into any number of fragments, each of which shall be equal in value to another fragment of equal weight: and if required, these fragments can always be reunited, and form a whole again of the aggregate value of all its parts. All civilised nations, therefore, have agreed to adopt a Metal as Money, and of metals, Gold, Silver and Copper, have been chiefly used.

14. Now when persons take a piece of money in exchange for services or products, they can neither eat it, nor drink it, nor clothe themselves with it. The only reason why they take it is, as we have seen, because they believe they can exchange it away again whenever they please for other things which they do require. It is therefore what is called CREDIT. As Edmund Burke says of Gold and Silver—"The two great recognized species that represent the lasting conventional CREDIT of mankind."

Hence we obtain the fundamental conception of CREDIT—

Credit is anything which is of no direct use, but which is taken in exchange for something else, in the belief or confidence that we have the RIGHT *to exchange it away again.*

Credit is therefore the right or property of demanding something else when we require it. It is the RIGHT to a future payment: and it must be particularly observed that Credit is not the TRANSFER of something, but it is the NAME of a certain species of RIGHT or PROPERTY.

15. So long as nations continue in a low state of civilisation all this Credit, or Money, is of some material substance. But when they advance in civilisation they use Credit in another form. To revert to the case from which we shewed how the necessity for Money originated, that of UNEQUAL exchange, suppose that the Debtor instead of the general merchandise called Money, gives the Creditor a simple Promise to render the balance of service when required. Then the Creditor has the RIGHT to demand an equivalent in future. But it is only a Right against a particular person. Suppose for instance that a person holds a tea merchant's promise to pay five pounds of tea. The Creditor may sell or transfer that Right to any one else. Suppose he happened to want bread, and the baker happened to want tea, the Creditor might sell the Right to demand so much tea in exchange for so much bread. Now that Right is only to demand a particular thing; and only from a particular person: and that person may die, or become insolvent, and may not be able to fulfil his promise.

Hence the Value of the Promise is *particular* and *precarious*. But if the tea merchant can fulfil his Promise, that Promise is of

the VALUE *of* the tea. The tea is *the* VALUE of the Promise. And to any one who wants tea, the Promise is of exactly equal Value with Money. So if any one wants anything, an ORDER for that thing is of the same Value as Money with regard to that particular thing. If a person wants a shilling's worth of bread, an Order for that amount of bread is of the same Value as a shilling with respect to bread: if a person wants a shilling's worth of milk, an Order for that amount of milk is of the same Value as a shilling with respect to milk: and so on of everything else. The only difference is that each of these Orders only entitles a person to that particular thing, whereas with a shilling he can buy a shilling's worth of bread, *or* a shilling's worth of milk, *or* wine, *or* anything else he pleases. Hence each of these Orders has only got one Value, but Money has a multitude of Values. Again if the person who has made the Promise cannot perform it, the Promise has lost its Value; but if a person has Money he can always find some person to give him the equivalent he wants for it. Hence such an Order has only *particular* and *precarious* Value, but Money has *general* and *permanent* Value.

This ORDER or PROMISE is what is usually called CREDIT; and it is clearly seen that though it is of a lower and inferior form, yet it is of the same general *nature* as Money. And because such Orders, or Promises, can be exchanged or bought and sold like any material chattel they are called *Pecunia*, *Res*, *Bona*, and *Merx* in Roman Law.

16. From this it will be seen that it is perfectly possible to carry on the exchanges of society without material Money. During the late civil war in America gold and silver money entirely disappeared from circulation, and private tickets of the nature described above, took its place. Instead of Money, people had their pockets filled with bread tickets, milk tickets, railroad tickets, &c. If a man had his hair cut and tendered a dollar in payment he could not get change in money, but he received so many tickets promising to cut his hair so many times. We saw a case in an American paper where payment was made in tickets promising to pay strawberries when the season came on.

17. This Paper Credit which we have described would in

its simplest form have the particular service or product, it was intended to command stated on the face of it, as we have just seen was done in the American war. This however would manifestly limit its utility, so by universal consent it is almost invariably the custom to make the Paper Credit of a country a Promise to pay in Metallic Money, which is the generally received power of commanding all services and products. Paper Credit, therefore, in modern practice instead of Promising that the Debtor will render any amount of particular service, almost always Promises that he will give a certain amount of Metallic Money either on demand, or at some fixed time.

What we have said now is sufficient to explain the true Nature of Money and Credit. The fundamental conception of Money is that it represents Debt or Services due: but of course the value of the material which it is composed of with respect to other things is governed by the general laws of Value: which however are not necessary for the purpose of this work, in which we have only to do with the exchange of Money for Credit, or Promises to pay Money. It is now clearly shewn that Money and Credit are homogeneous quantities and that Money is only the highest and most general form of Credit.

On Sale *or* Circulation.

18. When commodities are interchanged directly for one another it is called Barter or Exchange. When commodities are interchanged for Money, that Money is only taken in order that it may be interchanged again for something else. Hence Say aptly said that when Money is used the transaction is *half-an-exchange*, which is true. It is also called a Sale. A Sale always denotes a transaction in which one of the quantities exchanged is Money or Credit; that is when one quantity is a useful commodity, and the other only the Right to demand one: that is when the interchange is of things of an unlike nature. An Exchange is always an interchange of things of a like nature. Thus we speak of the Foreign Exchanges, or the Value of the Money of one country in terms of the Money of another; or we

ask for the change (i.e. the 'change or exchange) of a 5*l.* Note, a Cheque, or a Sovereign. So we speak of exchanging a picture for a statue, or one book for another. When the interchange is of commodities for Money or Credit, the one who gives Money, or Credit, is said to BUY the commodity; and the one who gives the commodity is said to SELL it. Thus we *buy* a horse or a house with Money. Formerly an officer *bought* a commission in the army, but he *exchanged* from one regiment to another. So in Lear when Albany throws down his glove to the traitor Edmund, the latter, throwing down his own says—"There's my exchange"—meaning like for like. So in Hamlet Laertes says—

"Exchange forgiveness with me, noble Hamlet."

A transaction in which Money or Credit is given for commodities is, as just said, termed a SALE. The sum total of these Sales is properly termed the CIRCULATION. Hence a single piece of Money may add considerably to the Circulation, for every time it is transferred it adds to the Circulation. It is to be observed that the word Circulation is very often used in a very corrupt sense to mean Money and Bank Notes, more particularly the latter. But to call the Notes which circulate, the Circulation, is as great a confusion of ideas as to call a wheel a *rotation*. We shall accordingly never use the word Circulation to mean the issues of a bank; the correct expression evidently is to say the *Notes in Circulation*.

On the Terms CURRENCY *and* CIRCULATING MEDIUM.

19. The terms CURRENCY and CIRCULATING MEDIUM are used as synonymous by all writers, and we must now explain their meaning.

Circulating Medium is a term which came into use in the last decade of the last century. It does not occur in Smith. The first instance we have been able to discover of its use is in a speech of Mr. Fox, who complained of it as a novel term. But as we have defined Circulation to be the exchange, or sale of

commodities for Money or Credit, it is evident that the Circulating Medium is the Medium by which Circulation is effected: and that Medium is simply Money and Credit in all its forms and varieties.

This is so plain as to require no more explanation: but an immense amount of controversy has been waged about the word CURRENCY.

20. We shall not notice here any of these controversies. The word CURRENCY is a term of pure Mercantile Law; and we shall simply explain what it really means.

To call Money by the name of CURRENCY is a strange abuse of language. In old times men used to speak of Money being "current" as it passed from hand to hand. Hence arose the expression the *Currency* of Money. Lord Mansfield, in *Miller* v. *Race* in 1750, says of Money that it cannot be recovered after it has passed "*in Currency*," but before Money has passed "*in Currency*" an action might be brought for it. He says the same of a Bank Note: an action could not be brought for it after it was paid away "*in Currency*." Hence the word Currency was applied to a certain peculiarity of Money. But about the beginning of the last century, by a most extraordinary confusion of ideas, and as far as we have been able to discover, it arose in our American colonies, the Money itself was called CURRENCY.

To show the extreme absurdity of this name, we have only to consider a few similar cases. Nothing is more common than to say that such an opinion or such a report is current: and we speak of the *Currency* of such an opinion, or such a report. Tom Paine said—"I have gone into coffee houses and places where I was unknown on purpose to learn the *currency* of opinion . . . . . this I think a fair way of collecting the natural *currency* of opinion." But who ever dreamt of calling the opinion, or the report itself, *currency*? It is very common to speak of the *currency* of the Session of Parliament—but who ever dreamt of calling the Session itself *currency*?

Now how can it be more rational in a scientific sense to call Money, *Currency*, than to call a report or an opinion, or the Session of Parliament, *Currency*?

Such as it is however, this Yankeeism is far too firmly fixed

in common use to be abolished, and hence we must accept it, and explain what it really means, and ascertain what in a scientific sense it includes.

The following is the meaning of the words "CURRENT" and "CURRENCY" in English Law.

It is a general rule of English Law that a person cannot transmit to another any better title to a thing than he has himself. It is also a rule of Law that if a person accidentally loses a thing or has it stolen from him, he does not thereby lose his Property or Right in it. Consequently he can not only recover it from the finder or thief, but even if the finder or thief has sold it to some one else who has given a full price for it, and bought it quite honestly without knowing that it was not the Property of the seller. The only exception to this was if the finder or thief sold the goods in "market overt." If the goods were bought in market overt the buyer may retain them against the true owner, even though they were stolen.

But to this rule of English Law Money was always an exception. If the true owner of Money which has been stolen finds it in the hands of the thief he may recover it: but if the thief has purchased things in a shop with it, in the usual way of business, and the shopkeeper takes it honestly in the way of his trade, and without knowing it has been stolen, he may retain it against the original owner from whom it has been stolen. That is the Property in it passes by delivery.

And it is this peculiarity in the Law affecting the Property by delivery in Money which is denoted by the word "CURRENCY."

And when the substitutes and representatives of Money such as Bills of Exchange, Bank Notes, Cheques and other Securities for Money came into use, the *Lex Mercatoria*, or custom of merchants, applied the same doctrine or principle of "Currency" to them. They were treated like Money in so far as this, that the Property in them passed like that of Money. Thus if they were stolen, though the real owner might recover them if he found them in the hands of the thief, yet if the thief had passed them away for Value in the ordinary course of trade to an innocent holder, that innocent holder acquired the Property in them, and might retain them against the true owner, and enforce payment from all the parties

liable. Thus Bills of Exchange, Bank Notes, Cheques, &c., were assimilated to Money in this important respect, that, even though stolen, when they had once been passed away "in Currency," the Property in them belonged to the person who had innocently purchased them; and as Lord Mansfield said, no action would lie for them after they had once been paid away "in Currency."

This principle of Currency is also called NEGOTIABILITY; a Negotiable Instrument means a document of which the Property passes by delivery.

That this is the true meaning of the term Currency is well known to every Mercantile Lawyer; and is established by a series of decisions in the Courts of Law. As it would not be suitable to the limits of this work to quote these here, we must refer any of our readers who wish to follow the subject further, to our "Principles of Economical Philosophy," chap. xvii., where we have given full extracts from the decisions of the Courts of Law.

It will be seen then that in strict legal phraseology the word CURRENCY can only be applied to those Rights which are recorded on some material. An abstract Right cannot be lost, mislaid, or stolen, and passed away in commerce. But if it be recorded on some material substance it may then be lost, or stolen, and sold like any other chattel: and the word Currency simply refers to some legal rules relating to the transfer of the Property in it, in the case of its being stolen and passed away in commerce. For an Obligation to be capable of being CURRENCY in law, it must be recorded on some material so as to be capable of being carried in the hand, or put away in a drawer, or dropped in the street, and stolen from the drawer, or from a man's pocket, and carried off by the finder or thief and sold like a piece of goods. The word CURRENCY has no reference whatever to any property it has of paying, discharging, and closing debts.

So far, then, in point of Law there is not the slightest difficulty; the meaning of the word is perfectly plain. But if the force of public usage is too strong, and the word CURRENCY is too firmly established as the designation of a certain class of Economic Quantities to be rejected, a difficulty arises, and more especially if it is used as synonymous with Circulating Medium,

because there is an immense mass of Credit which has produced exchanges, and which may be bought and sold, which is not recorded on any material substance, so that it can be lost or stolen, and pass by manual delivery.

Thus the gigantic mass of Bank Credits and book debts of traders have effected a sale or circulation of commodities, and therefore they are all Circulating Medium, but they are not CURRENCY in a legal sense, because they cannot be mislaid, lost or stolen, and passed away by manual delivery. But though in point of Law these Credits are not "Currency," they must be included under that word used as a scientific term in Economics: because these Rights of action are exactly the same in their nature and effects whether they are recorded on paper or not.

21. Adopting this definition we may enumerate the different species of Currency, or Circulating Medium, as follows—

1. Coined Money: gold, silver, and copper.

2. The Paper Currency: Promissory Notes, Bills of Exchange with all their varieties.

3. Simple Debts of all sorts not recorded on Circulating paper: such as Credits in Bankers' books called Deposits, Book Debts of traders, and private Debts between individuals.

It is obvious that there is no distinction in principle between the two latter species. They each denote that a transfer of some sort has taken place, and are a Title to future payment. As a matter of convenience some of these are recorded on pieces of paper, but that does not alter their nature. It is certainly true that some of these descriptions of Currency are more eligible and secure than others, and perform the same duties with different degrees of advantage. The Metallic Currency rests upon the credit of the State, that it is of the proper weight and fineness, and the universal readiness of people to receive it in return for services and products. Paper Currency in this country at least, rests entirely upon private Credit, and is of all degrees of security from a Bank of England Note down to a private I. O. U. These different species of Currency, therefore, though they possess different degrees of circulating power, though they may be more or less eligible or secure, represent but one fundamental idea—DEBT. From these considerations it follows that the amount of

Currency, or Circulating Medium, in any country is the *sum of all the Debts due to every individual in it*—that is all the Money and Credit in it.

This truth was well expressed by the Marquis of Titchfield in the House of Commons—"Economy of Money was, by contrivances to spare the uses of it, according to the description of his right honourable friend, by substitutions for the precious metals in the shape of voluntary Credit. Every new contrivance of this kind—and every one improved—had that tendency. When it was considered to how great an extent these contrivances had been practised in the various modes of VERBAL, BOOK, *and* CIRCULATING CREDITS, *it was easy to see that the country had received a great addition to its* CURRENCY. *This addition to the* CURRENCY *would, of course, have the same effect as if gold had been increased from the mines.*"

On PRICE, DISCOUNT *and* INTEREST.

22. When one Economic Quantity is exchanged for another, each is termed *the* VALUE of the other. But when one of the Quantities exchanged is Money, or Credit, the sum of Money, or Credit, receives a peculiar name. It is called the PRICE of the other. Price is therefore simply the Value of anything expressed in Money or Credit. But as it is invariably the custom in modern times to estimate the Value of every commodity by its Value in Money or Credit only, or its Price, and not by its Value in any other commodities, the words Value and Price have become almost identical and interchangeable expressions, though no doubt we must remember the technical difference between them.

Now as *the* Value of the Money is the Commodity received in exchange for it, it is manifest that the greater the quantity of the Commodity received for it, the greater is the Value of Money. Or if the quantity of the Commodity be taken as fixed, the Value of Money is greater as *less* Money is given for the Commodity. Hence it is clear that *the Value of Money varies* INVERSELY *as Price.*

The Value of Money, however, with respect to the Property or the Commodity called Debt, or Credit, is estimated in a peculiar way. Debt, or Credit, being an Exchangeable Quantity, Merchandise, or a Commodity, must be divided into certain units in commerce, like other goods. Coals are measured by the ton; other things by the pound; other things by the ounce. The unit of Debt is the Right to demand 100*l.* to be paid one year hence. A Debt, then, of 100*l.* payable one year hence being a saleable commodity, like a quarter of corn, the sum given for it is its Price, just as we speak of the Price of anything else: and the Value of Money increases as the Price given for a Debt diminishes. But in the commerce of Debts it is not the custom to estimate the Value of Money by the Price of the Debt. The Price of the Debt must of course be less than the Debt: and the difference between the Price of the Debt and the Amount of the Debt is called DISCOUNT. The Discount is the Profit made by buying the Debt. It is clear that the Price of the Debt together with the Discount equals the Amount of the Debt: and as the Price decreases the Discount increases. In the language of the Money Market it is always the custom to estimate the Value of Money by the Discount or Profit it yields. To buy or purchase a Debt is always in commerce termed to *Discount* it.

Hence the reader must observe that in commerce the expression "Value of Money" has two meanings, according as it is applied to the purchase of Commodities, or Debts: when applied to the purchase of Commodities, it means the *Quantity* of the Commodity obtained in exchange for the Money: when applied to the purchase of Debts it is applied to the *Profit* realised by buying the Debt.

Hence in this latter case *the Value of Money varies* DIRECTLY *as the Discount or Profit.*

And we have this rule—

The Value of Money varies INVERSELY *as Price and* DIRECTLY *as* DISCOUNT.

To Discount a Bill of Exchange at 5 per cent. means to give a Price for the Debt in the proportion of 95*l.* for every 100*l.* of its amount payable one year hence.

When a person advances money to another and agrees to defer receiving the Profit till the end of the year, the Profit is termed INTEREST. If he lends, as it is called, 100*l.* for a year at 5 per cent. interest, it is in fact an exchange, or sale, in which he pays 100*l.* down to buy a Debt of 105*l.* payable at the end of the year: and the 5*l.* is the Interest.

This method of making Profits, though not uncommon, is never used in banking, except in charging interest for overdrafts. Bankers invariably subtract the Profit agreed upon at the time of the advance. Thus they always make Profits in advance; and in this case the Profit is termed DISCOUNT. Thus if a banker discounts a bill of 100*l.* for a customer at 5 per cent. he places 95*l.* to his credit, and retains the 5*l.* at the time of the advance. In reality he gives Credit for 95*l.* to buy a Debt of 100*l.* payable a year after date: and the 5*l.* or the difference between the Price of the Debt and its amount, is the Discount and his Profit.

It is clear that this latter method of trading is the more profitable, because in the former case he makes 5*l.* profit on the actual advance of 100*l.*: in the latter case he makes 5*l.* profit on the actual advance of 95*l*: and besides that, he has the 5*l.* in his hands to trade with immediately, instead of waiting till the end of the year. In the large amounts of money which banks deal with this makes a very sensible difference in their profits, especially when the Rate of Discount is high.

The Rate of Interest or Discount is the amount of Interest or Discount paid for some given time, as a year.

On SECURITIES FOR MONEY *and* CONVERTIBLE SECURITIES.

23. We must now explain the difference between *Securities for Money* and *Convertible Securities*.

A SECURITY FOR MONEY always means an Obligation, or Security, for the payment of a definite sum of Money from a definite person at a definite time. There is, therefore, always some Obligor, or Debtor or some *person* who is bound to pay it. There are different forms of such Securities, such as Bank Notes, Promissory Notes, Bills of Exchange, Exchequer Bills, Navy Bills, and Debts of all sorts.

CONVERTIBLE SECURITIES are securities which no particular person is bound to pay, but for which under usual circumstances a purchaser can readily be found in the open market. Thus any Property which can readily be sold is called a Convertible Security, because it can be readily converted into Money. This species of Property includes the Public Funds, Shares in all sorts of Commercial Companies, and all title deeds to Property of a movable description of which the Property passes by simple delivery, such as Dock Warrants and Bills of Lading. The fundamental distinction between these latter and Instruments of Credit will be clearly explained in a future chapter. Now as Convertible Securities mean Property which is readily convertible into Money, of course there are all degrees of convertibility. There is no absolute distinction in principle between the different species of Property. But of all species of Property the Funds are the most readily convertible: and the Land or Real Property, the least readily convertible, mainly in consequence of the difficulty in its transfer.

Thus Securities for Money *never* represent any specific Money: but are always a claim on the person. Convertible Securities are *never* a claim on the person, and certain kinds of them are *always* a title to certain specific goods. Sometimes a Security for Money may be changed into a Convertible Security. This is done in what is technically called *funding the unfunded debt.* The Government often raises money on its bills like an individual, and is of course bound to pay them at maturity. These Exchequer Bills, therefore, as they are called, are, like any other Bills of Exchange, Securities for Money. Sometimes when these bills amount to a large sum, it is very inconvenient for the Exchequer to pay them in full, and it gets its Creditors to agree not to demand repayment of the whole debt, but to receive only the interest on it in perpetuity. When this is done, the Creditor loses the right to demand the principal sum from the Government, but he may sell the Right to receive the Annuity to any one else in the open market. It then becomes a Convertible Security, and is called the Public Funds, or Stock. This operation is termed *funding the unfunded debt.* In a similar manner, Railway companies have been allowed to borrow money on their

bonds, termed Debentures. But finding it inconvenient to repay these large sums they have formed them into Debenture Stock, upon which they are only bound to pay the interest, like the Public Funds.

Definition of CAPITAL.

24. Economic Quantities are, as we have seen, of three distinct species, typified by MONEY, LABOUR, and CREDIT.

Now any of these Quantities may be used in two different ways. The proprietor may use it for his own use or enjoyment: or he may employ it so as to produce a Profit: that is he may trade with it. When any Economic Quantity is traded with; or used so as to produce a Profit, or as it is termed in Economics, employed *productively*, it is termed CAPITAL.

Stephens in his Thesaurus defines Capital thus—"Caput unde fructus et reditus manat—Capital the source whence any Profit or Revenue flows."

So says Senior—"Economists are agreed that *whatever* gives a Profit is properly termed CAPITAL."

So M. de Fontenay says—"Wherever there is a *Revenue* you perceive CAPITAL."

The definition of CAPITAL, therefore, which we adopt is this—

CAPITAL *is an Economic Quantity used for the purpose of Profit.*

If a person has a sum of Money, he may expend it on his household requirements; or in gratifying his personal tastes by buying books, or statues, or pictures, &c. Money spent in this way is not Capital.

But if he buys goods of any sort for the purpose of selling them again with a Profit: then the money so employed is CAPITAL, and the goods so purchased are also CAPITAL, because they are intended to be sold with a Profit.

So Money lent out at interest is CAPITAL.

In a similar way any material thing may be used as Capital. If a landlord lets out his land for the purpose of Profit, it is Capital. Some great noblemen possess tracts of land upon which

great part of London is built: that land is Capital to them And so on in numerous other cases.

25. All modern Economists class personal skill, abilities, energies, and character, as Wealth because persons can make a Profit by their use.

Hence they may be used as Capital as well as any material objects.

If a man digs in his garden for his own amusement, such Labour is not Capital: or if he sings, or acts, or gives gratuitous lectures on any subject to his friends, such Labour is not Capital.

But if he sells his Labour in any capacity for Money: then such Labour is Capital to him. Thus Huskisson said—"that he had always maintained that Labour is the poor man's Capital." So Mr. Cardwell addressing his constituents, said—"Labour is the poor man's Capital." And a writer in a daily paper, speaking of agricultural labourers justly said—"The only Capital they possess is their Labour, which they must bring into the market to supply their daily wants."

So if a man expends Money in learning a profession such as that of an advocate, physician, engineer, or a profession of any sort which he practises for Profit, the Money laid out in acquiring such knowledge is Capital: and his skill, abilities, and knowledge are also Capital. He makes an income which is measurable and taxable just in the same way as if he had made Profits by selling goods. Now any exertion of human abilities which is paid for is Labour, with which we are not concerned in this work.

26. But a man may use his personal Character, Skill, Abilities, Energy, and Probity for the purpose of Profit in another way besides the direct exchange of his Labour for Profit.

He may use them for the purpose of purchasing goods, materials, &c., by giving a Promise to pay in future instead of actual payment in Money, and selling these goods again with a Profit. In popular language this Purchasing Power of Character is called CREDIT. And a trader makes a profit by trading with his Credit precisely in the same way as if he traded with Money.

Thus Smith says—"Trade can be extended as stock increases, and the CREDIT of a frugal and thriving man increases much faster than his stock. His trade is extended in proportion to the *amount of both*, and the sum or amount of his Profits is in proportion to the extent of his trade: and his annual accumulation in proportion to the amount of his Profits."

So Mill, who says that Wealth is *anything* which has Purchasing Power, says a multitude of times that Credit is Purchasing Power. But as human abilities, skill, and energy do not come within the domain of Economics until some exercise of them is made which is paid for; so a merchant's general Credit, or Purchasing Power, does not come within the domain of Economics until he actually makes some purchase with it; and then he gives his Promise to pay in exchange for the goods instead of actual money. Now this PROMISE to pay, this DEBT, or RIGHT to demand payment is the Economic Quantity called CREDIT; and it may be bought and sold like any material Chattel.

Suppose that a person buys, or discounts a Commercial Debt; he gives a less Price for it than the amount; hence the Debt is always increasing in value every day; and therefore it is Capital to him.

So any other Economic Quantities of the third order, or Rights, may be Capital. If an author writes a successful Work, the Copyright of it is Capital to him: or if he sells it to a publisher it is Capital to the publisher. If a man buys into the Funds they are Capital to him. There is a class of traders whose business is to buy and sell the Funds and Shares in Commercial Companies. They are called Stock Jobbers: and they keep a stock of this Property on hand, just as other traders keep a stock of material goods.

27. Now there are two fundamentally distinct ways in which Capital may increase—

1. By direct and actual increase of quantity; thus flocks, and herds, corn, and all the fruits of the earth increase by adding to their number or quantity.

2. By exchange: that is by exchanging something which has a low value in a place, for something which has a higher value.

Now it is clear that Money produces a Profit, and therefore

becomes Capital, by the second of these methods. Money is used as Capital by exchanging it for some goods or labour, the produce of which may be sold or exchanged again for a greater sum than they cost. And it is also clear that any Economic Quantity whatever which is used as a substitute for Money to purchase goods for the purpose of Profit is Capital as well as Money, by the very force of the definition which Senior says that all Economists are agreed upon.

Money becomes Productive Capital by being employed to purchase things to be sold again at a Profit. And if a man can purchase things by means of his Credit, that is if he can purchase them by giving his Promise to pay at a future time, and by so doing can sell the goods at a higher price, and so has a Profit after paying and discharging his Debt, it is quite clear that his Credit has been Capital to him in exactly the same way that Money would have been.

Let us take a very simple example to illustrate this. Suppose a tailor wants to make clothes for a customer. He pays say 10*l.* in money to the cloth merchant, and after making up the cloth, he sells the clothes perhaps for 15*l.* Then he has used his Money as Capital. He has 10*l.* at the beginning of the operation, and 15*l.* at the end of it: or he has made a profit of 5*l.*

Suppose the tailor has no money to buy the cloth with, then if he cannot buy it on Credit, he cannot make the clothes, and he cannot have any Profit.

Suppose, however, that the cloth merchant believing in his honesty and capacity to pay, sells him the cloth in exchange for his Promise to pay money three months after the time. As the payment is deferred, and as of course there is some risk of loss, he will by way of insurance, charge the tailor a somewhat higher price in Credit, than in Money. Suppose he sells his cloth in exchange for the tailor's promise to pay 11*l.* three months after the time. This is as much a Sale as if the Price had been paid in Money. The Property in the cloth has gone to the tailor, and what the cloth merchant has received in exchange for it is, the Right or Property, to demand 11*l.* three months after date. And this Property is called a Credit or a Debt.

The tailor having purchased the cloth by creating a Debt

against himself of 11*l.*, payable in three months' time, makes up the clothes as before, and is paid 15*l.* by his customer. At the end of the three months he pays 11*l.* out of this to the cloth merchant, and has of course remaining for himself a Profit of 4*l.*

Now by the Cash operation he is better off at the end by 5*l.*: and by the Credit operation he is better off by 4*l.* than he was at the beginning. It is true, he has not made so great a Profit by Credit as by Cash. But still he has made a Profit by his Credit, which he could not have made without it. Hence by the very definition his Credit has been Capital to him, and has produced exactly the same circulation of commodities, and given employment to the same quantity of labour that Cash would have done. Hence we see that Credit is Productive Capital in exactly the same way, and in the same sense that Money is.

CHAPTER II.

ON VALUE.

1. It has been seen in the preceding chapter that there are three distinct species of Exchangeable, or Economic, Quantities, symbolised by the terms MONEY, LABOUR, and CREDIT, the various interchanges of which give rise to SIX different kinds of Exchange. These constitute the science of Economics, or Political Economy, in its most modern definition. It has also been said that *the* VALUE of any Economic Quantity is any *other* Economic Quantity for which it can be exchanged. To examine these six species of exchange with all their ramifications, would be a complete treatise on Economics. In the present work we have only to do with *two* out of the six species of exchange, viz., the exchange of Money for Credit, or Debts, and the exchange of Credit, or Debts for Credit, or Debts, which constitutes the business of Banking. We must now investigate the Theory of Value, which must be equally applicable to all Economic Quantities, and to all the six species of exchange.

The complete Theory of Value comprises the following :—

1. The Definition of Value.
2. The Origin, Source, or Cause of Value.
3. The General Law of Value.

We must now examine each of these separately, and though we wish to avoid controversy as much as possible, we cannot avoid noticing some misconceptions which are still very prevalent, as they have done so much to obscure the Theory of Credit in recent times.

On the Definition of VALUE.

2. Value in its original sense is a quality or desire of the mind: it means esteem or estimation: as we speak of a highly valued friend: but such Value is not an Economic phenomenon. To bring Value into Economics it must be manifested in some tangible form: just as in the same way, human abilities do not enter into Economics unless they are exercised in exchange for something else: nor does a merchant's Credit enter into Economics until he actually effects a purchase with it, and gives a Promise to pay in exchange for some merchandise. So Value does not enter into Economics until a person manifests his desire, estimation, or Value for something by giving something in *Exchange* for it to acquire possession of it.

But as one person cannot gain possession of what another person possesses without giving him something in exchange for it, which that person desires, demands, or Values, it is evident that for an exchange to take place *requires the concurrence of two minds.* If a person brought a cargo of wine to a nation of teetotallers, no one would buy it: such a product would have no Value among such a community. So a cargo of tobacco would have no Value among a nation of non-smokers. The Value of a thing does not depend solely upon the person who offers it for sale, but upon the desire of the purchaser. However much a person may wish to sell any product of his own, yet if no one will buy it it has no Value. If an exchange takes place it can only be from the *reciprocal* desire of two persons, each for the goods of the other.

3. When, therefore, two persons agree to exchange their products, each product may be considered as the Measure of the desire of its possessor to obtain the product of the other person. The two products, therefore, reciprocally measure the desire of their possessors to obtain the product of the other: and when the respective persons have agreed upon the quantities of their products which are to be exchanged, the two products are said to be of equal Value. Each product is said to be *the* VALUE of the other: and this is the only kind of Value with which Economics is concerned.

Thus let A and B be any two Economic Quantities which are exchanged at any moment; then we may say—

A *valet* B

or A is of the Value of B

or A=B

Then B is *the* VALUE of A, in terms of B: and A is *the* VALUE of B, in terms of A.

Thus, as the Physiocrates said—"Value consists in the relation of exchange which takes place between such and such a product: between such a Quantity of one product and such a Quantity of another."

4. Hence it is clear that Value is a Ratio, or an Equation. It is like distance: it necessarily requires two objects. The Value of a thing is always something external to itself. It is absolutely impossible to predicate that any Quantity has Value, without at the same time implying that it can be exchanged for something: and of course everything it can be exchanged for is its Value in that commodity. It is impossible to say that any Quantity has Value, without at the same time stating Value in what—whether bread, or shoes, or cloth, or money, or anything else. So it is impossible to say that a town has distance unless we state the place it is distant from. We can no more say that a Quantity is worth, than we can say that London is distant. And as any place is of different distances from other places, so any Quantity has as many Values as other Quantities it can be exchanged for.

Now suppose B as above is ten guineas: then A may be either of the other three species of Economic Quantities. It may be a material product like a watch: or it may be an immaterial product, such as so much instruction in science or literature, or so much amusement—as so much acting, or any other service or labour: or it may be an incorporeal product—as a Debt, under the form of a Bank Note, or a Bill of Exchange: or so much Public Stock, or any other species of Incorporeal property. Each of these species of Property is of the Value of ten guineas: and therefore it manifestly follows that each of them must be equal to

each other: for *Things which are equal to the same thing are equal to one another.*

But B may be either of the three species of Economic Quantities as well as A. Therefore any Economic Quantity may have Value in terms of any of the others.

The Value of the goods in the merchants' and traders' warehouses is the Money in the pockets of their customers. The Value of the money in the pockets of the public is the various products and services it can purchase. The Value of a Professor's lectures is the fees paid to him by his students. The Value of the Lawyer's, Physician's, Surgeon's talents is the income he can earn.

The Value of an Incorporeal Right, or Promise, is the thing which may be demanded or promised.

The Value of a 5*l.* note is five sovereigns. The Value of a Postage Stamp is the carriage of a letter. The Value of a Promise, or Pledge, to cut a man's hair is the cutting of the hair. The Value of a Railway Ticket is the journey. The Value of an order to see the Zoological Gardens is being admitted to see them. The Value of an order to see the play is seeing the play.

Suppose the price of getting one's hair cut is a shilling: suppose I want my hair cut; what difference does it make to me whether I have a shilling in my pocket, or the pledge of the hair-dresser to cut it? Is it not clear that in this case the Shilling and the Promise are of exactly the same Value to me?

Suppose I want a loaf of bread which costs a shilling: what difference does it make to me whether I have a shilling in my pocket, or a Promise of a baker to give me the bread? Are not the Shilling and the Promise of exactly the same Value to me in this case?

In short suppose that I want any product or service at all, what difference does it make to me whether I have the Money in my pocket to purchase it, or a Promise from some one to render me the product or service? Are not the Money and the Promise of exactly the same Value to me in each separate case?

Each separate tradesman only, of course, promises to render some particular product: and as this product is not demandable from any one but the person who has given the pledge, it has, of course, only *particular* Value.

Now what is Money? It is nothing but the generalised Right, or Power, to demand whichever of these products or services we may require at any time. Is it not clear, therefore, that Money is a General Right, while each of these Pledges is a Particular Right?

Is it not clear, therefore, that each of these separate Rights is of the same *nature* as Money, only inferior in degree? And that they are Economic Quantities, or Wealth, for the very same reason that Money is? And that Money is nothing but a stored up or accumulated general Power or Right, of demanding all products and services? Is it not clear that, if a man had his pocket full of Promises or Pledges by solvent persons to render him all the products and services he wanted, he would be just as wealthy as if he had so much Money? Hence we see the perfect justice of the Roman Law—"Under the title of WEALTH or MONEY, RIGHTS are included."

These Rights, then, being clearly shewn to have Value, and to be Wealth, like any material products, they may be bought and sold and exchanged like any material products. A Right to demand a loaf of bread may be exchanged against a Right to have one's hair cut. And all these Rights are Economic Quantities, or Wealth, as much as any material products. They are the most colossal species of property in this country, and articles of the most gigantic commerce, whose mechanism is the subject matter of this work.

As the Value of anything is solely *anything else* it can be exchanged for, it is manifest that if it can be exchanged for nothing, it has no Value. No matter what qualities it may possess, if no one else wants it, and will give nothing for it, it has no more Value for its owner, than if he were in the centre of the Desert of Sahara. Many persons have almost a difficulty in believing that Money could have no Value: but Smith himself says that if a guinea could not be exchanged for anything it would be of no more Value than a bill upon a bankrupt. Say says that things can only be Valued by an exchange. This is strictly in accordance with the doctrine of all ancient writers and of the Physiocrates.

Thus a recent writer describing the splendour of the houses

in some of the remote country districts of Spain says—"Houses and splendid furniture in such places are nearly *Valueless*, because there is no one to hire the former, or to buy the latter."

5. Having thus enforced the doctrine that *the* Value of any Economic Quantity is any *other* Economic Quantity for which it can be exchanged, there is only one further thing which need be noticed here: Price is the Value of a Quantity in Money or Credit only. Now if Money or Credit be excessively abundant, the Prices of all things will rise, but they will still preserve their relative Values among themselves. For if a loaf of bread and a pound of meat each cost sixpence; and if in consequence of the excessive abundance of Money or Credit, they each rise to a shilling, the pound of meat is still of the Value of a loaf of bread. Hence there may be a general rise or a general fall of Prices.

But there can be no such thing as a general rise or a general fall of Values. Everything can no more rise or fall with respect to everything else, than, as Mill says, a dozen runners can each outrun all the rest, or a hundred trees can all overtop one another; to suppose that all things could rise relatively to each other would be to realise Pat's idea of society, where every man is as good as his neighbour, and a great deal better too.

On the Error of the Expression INTRINSIC VALUE.

6. We must now say something about an expression which has been the source of enormous confusion in Economics, and has especially obscured the Theory of Credit.

All ancient writers kept their minds firmly fixed on the thing which anything could be exchanged for as its Value; or something *external* to itself: and we have not found in them any trace of such a confusion of ideas as the expression *Intrinsic Value*. But their writings on the subject seem to have been totally forgotten. In modern times when men began to consider the subject of Wealth, gold and silver were long held to be the only species of Wealth, because they outlasted everything else, which wasted away while they remained. When men began to see the absurdity of considering specie to be the only Wealth, they

looked to some quality of the thing itself, as constituting a thing Wealth, and then they began to speak of *Intrinsic Value*. So long ago as 1696, an able writer, Barbon, pointed out the confusion which had arisen from mistaking the absolute qualities of a thing for the thing it would exchange for. He says—

"There is nothing that troubles this controversy more than for want of distinguishing between *Value* and *Virtue*.

"Value is only the Price of things; that can never be certain, because it must be there at all times, and in all places, of the same Value; *therefore nothing can have an* INTRINSIC VALUE.

"But things have an *intrinsic virtue* in themselves, which in all places have the same virtue: as the loadstone to attract iron, and the several qualities that belong to herbs, and drugs, some purgative, some diuretical, &c. But these things, though they may have great *virtue* may be of small *value*, or no price, according to the place where they are plenty or scarce, as the red nettle, though it be of excellent *virtue* to stop bleeding, yet here it is a weed of no *value* from its plenty. And so are spices and drugs in their own native soil of no value, but as common shrubs or weeds, but with us of great value, and yet in both places of the same excellent intrinsic virtue."

Again—"For things have no value in themselves: it is opinion and fashion brings them into use and gives them a value."

Barbon thus puts his finger on the very thing which is the bane of Economics at this very day, the expression *Intrinsic Value*, which is confounding an *intrinsic quality* with an *external relation*.

When men in modern times began to see the absurdity of restricting the term Wealth to gold and silver, they first extended it to mean the annual products of the earth which are useful to men. Thus Cantillon says—"The earth is the source or matter from whence all riches are produced." The Physiocrates defined Wealth to be all the material products of the earth which are brought into commerce. Smith began his work by saying that the real wealth of a country is the "annual produce of land and labour" but in the course of it he enumerates the abilities of men as fixed Capital and Paper Credit as circulating Capital.

Economists then confined their attention solely to things of

Value, the produce of Labour, including no doubt the principle of exchangeability as appertaining to Wealth, but only as a secondary and subordinate one, not as the sole and exclusive one, as it was by ancient writers. Then they began to consider that things would exchange in proportion to the Labour employed in producing them. Thus the Value of a thing was considered to depend on the quantity of Labour employed to produce it. Thus the *Quantity of Labour* embodied as it were in the thing came to be counted as its Value; and Value thus came to be called *Intrinsic*. This unhappy phrase *Intrinsic Value* meets us at every turn in modern Economics; and yet the slightest reflection will shew that to define Value to be something *External*, and then to be constantly speaking of *Intrinsic Value*, are utterly self-contradictory and inconsistent ideas.

Thus over and over again it is repeated in Economical works that Money has *Intrinsic Value*, but that a Bank Note, or a Bill of Exchange is only the *Representative* of Value.

Money no doubt is the produce of Labour; but, as Smith observes, if it would exchange for nothing it would have no Value. So that after all Smith comes to exchangeability as the principle of Value. How then can its Value be *Intrinsic*? How can anything have *Intrinsic* Value, unless it has the things it will exchange for inside itself? Money will exchange for anything, corn, houses, lands, horses, carriages, books, etc., and each of these is the Value of the Money with respect to that commodity, but which of these is its *Intrinsic* Value?

It is quite clear that Money has not *Intrinsic* but *General* Value, because it is *generally* exchangeable throughout the country. But place it among a race of savages, and where would its Value be?

Persons throughout a country will always be ready to give things in exchange for the Money of the country, hence Money has *General* and *Permanent* Value, but manifestly not *Intrinsic* Value.

All Economists admit that a Bank Note payable on demand is of the Value of Money. And why is it so? Simply because it is exchangeable for Money. A Bill of Exchange on a solvent merchant has Value, simply because at a certain time, it will be

exchanged for Money. Hence it is clear that Bank Notes and Bills of Exchange have Value for precisely the same reason that Money has, and no other, viz. that they are exchangeable for something else. When Money can be exchanged it has Value; when it cannot be exchanged it has no Value; when a Bill or Note can be exchanged it has Value; when it cannot be exchanged it has no Value.

Hence we see that the Value of Money and Credit of all kinds is essentially of the same nature, though there may be different degrees of it. A piece of Credit by the unanimous doctrine of all Lawyers, all Economists, and all Merchants, is an article of merchandise, and an exchangeable commodity, just as much as Money or any other goods.

The expression *Intrinsic Value* is so common that persons are apt to overlook its incongruity of idea: but if we use words of similar import whose meaning has not been so corrupted, the absurdity will be at once apparent. Thus who ever heard of an *Intrinsic Distance*, or an *Intrinsic Ratio*? The absurdity of these phrases is apparent at once: but they are not more absurd than *Intrinsic Value*. To say that Money because it is material, and the produce of land and labour has Intrinsic Value, and that a Bill or Note is only the *Representative* of Value, is as absurd as to say that a wooden yard measure is *Intrinsic* Distance, and that the space between two points one yard apart is the *Representative* of Distance.

Other writers indeed consider the Value of a thing to be the quality which makes it desired; but this also is an error. The Value of a thing is *any other* thing for which it can be exchanged. Economics has nothing to do with the agreeable or useful qualities of things, but only with their external relations to other things: and it must always be remembered that Economics is a pure science of Ratios.

On the Distinction between Depreciation *and* Diminution in Value.

7. We must now observe the difference between two expressions, which, though often used indiscriminately, are essentially

distinct, viz. *Diminution in Value* and *Depreciation*. An *Alteration in Value* of any commodity means that the quantity of it which was considered as an equivalent for a certain amount of some other commodity with which it is compared, has undergone a change. *Depreciation* means that it is not really of the Value it professes to be. *Alteration in Value* of a commodity is always used in reference to some other commodity with which it is compared; *Depreciation* in reference to itself. Thus if at any given time an ounce of gold will exchange for fifteen ounces of silver, and if owing to any great and sudden increase of the quantity of silver, while the quantity of gold remains the same, one ounce of gold becomes able to purchase twenty ounces of silver, then silver is said to have sustained a *Diminution of Value* with respect to gold; or if, while silver remained the same, gold became very scarce, so that one ounce of gold would purchase twenty ounces of silver, then gold would be said to have *risen in Value* with respect to silver. But if a Bank Note which professes to be of the Value of five sovereigns, will only purchase four sovereigns, it is *Depreciated*; or if a guinea which professes to contain a certain fixed weight of pure gold, does not contain that amount, it is *Depreciated*. The expression *Diminution in Value* is applied both to commodities and Money: the word *Depreciation* is more usually applied to Money: when an analogous change takes place in commodities it is usually called *Deterioration*.

These distinctions are very necessary to be observed in all discussions regarding the Value of Coins which retain the same name during a long series of ages. The pound of money in the days of William the Conqueror really meant a pound weight of silver bullion; and silver was the only Money. Since then, silver has greatly increased in quantity, and other things are used as Money, which have greatly tended to diminish its Value. It is said, though of course all such statements are extremely difficult to verify, that silver has fallen to a twelfth of its Value in those times. Not only has the Value of the metal greatly *diminished*, but also the Coinage is greatly *deteriorated*. The shilling was originally the 20th part of a pound weight of silver; it is now only the 62nd part. Hence it is said that a shilling will only command the 36th part of what it formerly would. But as

great changes have taken place in everything else as well, it would be difficult to prove this.

These causes affecting the Value of Coins which retain their names through long periods, may act in the same or opposite directions. It is quite easy to imagine that a Coin, though greatly deteriorated, or diminished from its original weight, may in consequence of the increased Value of the material of which it is composed, be able to purchase as much as it would have done originally. It is sometimes alleged that this happened at Rome. The first Coinage of Rome was copper, and this metal was found in great abundance for some time after the foundation of the city. The first measure of Value was the *as*, which was a pound weight of copper. The *as* was subsequently reduced to the twelfth part of its weight, and some writers say that in consequence of the great scarcity of the metal, it had increased so much in value, that the deteriorated Coinage would purchase as much as the full pound would originally. This may be so, or not, but it in no way affects the argument. It might very possibly have been so.

These considerations greatly affect the public in the matter of Public Debts. The State agrees at a particular time, to pay a fixed quantity of Bullion, either for ever or for a long period to the Public Creditors. Now even supposing all other things to remain the same, the Value of the Money may vary greatly during long periods, either from the increased scarcity, or the increased abundance of the metal: and either the State or its Creditors may be grievously affected by these changes.

On the Origin, Source, *or* Cause *of* Value.

8. We have seen that there are three species of Economic Quantities, each containing many varieties, which have Value. We have seen that *the* Value of any Quantity is any *other* Quantity for which it can be exchanged. We now come to the second branch of our inquiry—What is the Cause, or Source, of Value, and whence does it originate?

Now when we are to search for the *Cause*, or *Source* of Value it may be as well to understand what it is we are searching for.

There is a very great number of things of several different natures which all have Value: we must manifestly search for some *single* cause which is common to them all: which being present, Value is present: which when it increases, Value increases: which when it decreases, Value decreases: and which being absent, Value is absent.

Now as we have defined *the* Value of a thing to be any *other* Quantity for which it is exchanged, it is evident that there must be at least *two* parties to Economic Value. And as Exchanges are voluntary, each of the two parties must have some product, and each must desire, or be in want of the product of the other. Hence reciprocal Demand is the cause of Value. Aristotle said long ago that it is DEMAND which binds society together.

Here it is quite clear that we have got the true Source, or Origin, or CAUSE of Value. It is DEMAND. Value is not a quality of an object, but an *affection of the mind.* The sole Origin, Source, or Cause of Value is HUMAN DESIRE. When there is a Demand for things they have Value: when the Demand increases (the Supply being supposed the same), the Value increases: when the Demand decreases, the Value decreases: and when the Demand altogether ceases, the Value is altogether gone.

The whole body of ancient writers made DEMAND the sole Origin of Value: and they shewed that Demand or Value is the inducement to Labour—"Eo impendi laborem ac periculum . . . . magna præmia proponantur."

In modern times, Boisguillebert saw this very clearly; he says—"*Consommation* (*Demand*) is the principle of all Wealth"—"All the revenues, or rather all the riches of the world both of a prince and his subjects only consist in *Consommation* (*Demand*): all the most exquisite fruits of the earth, and the most precious products would be nothing but rubbish if they were not *Consommés* (*Demanded*)."

So Hume says—"Our passions (desires or Demand) are the only causes of Labour."

The Italian Economists are very clear and consistent in shewing that human wants or desires are the cause of all Value. Genovesi shews that the words used indiscriminately, *Prezzo*, *Stima*, *Valuta*, *Valore*, are words of relation, and not absolute, and

that they are not applied to intrinsic qualities. That though Money is the apparent or proximate measure, the ultimate measure to which not only things, but their price, is referred is man himself. Nothing has Value where there are no men, and the very things which have a low price where men are few, have a very high price where there are many people.

"Men however do not give Value to things or services, unless they want them. Hence our wants are the first source of the Value of all things, and Price is the power to satisfy our wants." He says that the wants of men are the first source of the Value of everything, and of all Labour: and that *Value is the child of Demand.*

So Beccaria says—"Value is a substance which measures the estimation in which men hold things."

Condillac is also very clear on this point—"This esteem is what is called Value."—"Since the Value of things is founded on the want of them, or the Demand, it is natural that a want more strongly felt gives things a greater value: and a want less felt gives them less Value. The Value of things increases with their scarcity, and decreases with their abundance. It may even, on account of this abundance, decrease to nothing. A superfluity, for example, will be without Value whenever we can make no use of it."

The Physiocrates, or first school of Economists, made all Value proceed or arise from Demand: and they shewed that things which remain without Demand (*Consommation*) are without Value.

Anything has Value when it is Exchangeable; when it is not Exchangeable it has no Value. It is often supposed that Smith proved that Labour is the source of all Value and of all Wealth. But Smith's doctrines are quite contradictory on this subject, as we have fully pointed out in our *Principles of Economical Philosophy*, and *Theory and Practice of Banking*, and Smith himself says that if a guinea would exchange for nothing it would have no Value. It is well known that a considerable number of writers have asserted that Labour is the CAUSE of all Value. But any one who reflects on this assertion must see its utter fallacy. The simple observation that however much a

person may labour on producing a thing, if no one will buy it, it has no Value, must at once shew the fallacy of it. Moreover there are abundance of things which have Value upon which no Labour was ever bestowed.

It is this doctrine that Labour is the CAUSE of all Value, and that all Wealth is produced from the earth, which has done so much to obscure and confuse the Theory of Credit. Whereas when we consider EXCHANGEABILITY as the sole essence and principle of Value, the whole subject becomes perfectly clear and simple. A Bank Note or a Bill of Exchange has Value because it can be exchanged for Money; and Money has Value solely because it can be exchanged for other things. "An order or note of hand," says Mill, "or bill payable at sight for an ounce of gold, while the credit of the giver is unimpaired, is worth neither more nor less than the gold itself," i.e. of exactly the same Value as gold. And it is for this reason that JURA, Rights, are termed Wealth in Roman Law. They are *Pecunia*, *Res*, *Bona*, *Merx*, because they can be bought and sold. And it is the commerce in this species of Merchandise which is the subject-matter of this work.

On the GENERAL LAW *of* VALUE: *or the* GENERAL EQUATION *of* ECONOMICS.

9. Having in the preceding sections given the Definition of Value, and found that its Form or Cause resides exclusively in the Human Mind, the last branch of our inquiry is to determine the General Law of Value: or the General Equation of Economics: that is to discover a single General Law which governs the exchangeable relations of ALL Quantities, whatever their nature, at all times, and under all circumstances.

The acknowledged principles of Inductive Science shew us that there can be but one General Law of Value. We have seen in the preceding chapter that there are three distinct species of Economic Quantities, and we have generalised the fundamental Conceptions of the science so as to grasp all these Quantities. Now these three species of Quantities can be ex-

changed in SIX different ways. Our present object is to investigate a General Equation which shall be applicable to all the SIX species of exchanges indifferently. The Law which governs the exchangeable relations of material products, must equally govern the exchangeable relations of DEBTS.

Suppose we make £ the general symbol of an Economic Quantity—that is to say anything whatever whose Value may be measured: and representing these various species of Quantities under the general symbol £, we may affirm that there can be but *one* Cause of Value for them all; which we have shewn to be DEMAND: and there can be but *one* General Law which governs their exchangeable relations.

Now let A and B be any two Economic Quantities of any form whatever, then supposing that A remains the same while B varies with respect to A—then B or the value of A, will vary from *four* causes :—

It will *Increase*—

1. *From a Diminution in Quantity.*
2. *From an Increase of Demand.*

It would *Diminish*—

1. *From an Increase of Quantity.*
2. *From a Diminution of Demand.*

Now as the variations of Value of the other Quantity are influenced by exactly the same *four* causes, it is quite clear that the variations of both Quantities will be influenced by *eight* independent causes: and if these be connected in the form of an Algebraical Equation, that will manifestly be the true General Equation of Economics.

The above is the full expression of what is commonly called the Law of Supply and Demand. It means this that no change can take place in the Exchangeable relations of any two Economic Quantities unless there is some change in the Intensity of Demand or the Limitation of Supply, of one, or both of the two Quantities.

CHAPTER III.

ON THE COINAGE.

1. In the first chapter we explained the circumstances which gave rise to the use of Money, and showed that many substances have been used to fulfil that function. But a metal of some sort has been found to possess the greatest advantages: and of these, gold, silver, and copper have been chiefly preferred.

Gold and silver, however, in a perfectly pure state are too soft to be used for this purpose, and it is necessary to mix some other metal with them to harden them, which is called alloy. By a chemical law, whenever two metals are mixed together, the compound is harder than either of them in a pure state.

Gold and silver in the mass are called Bullion, and as the laws of all countries in which bullion is coined into money define the quantity of alloy to be mixed with the pure metal, we shall use the word Bullion to mean gold or silver in the mass, mixed with such a proportion of alloy as is ordered by law, so as to be fit to be coined.

Some nations have used Bullion as money; but the merchants of these nations were obliged to carry about with them scales and weights, to weigh out the Bullion on each occasion.

Other nations adopt a more convenient practice. They divide the bullion into pieces of a certain definite weight, and affix some public stamp upon it to certify to the public that these pieces are of a certain weight and fineness, and they give them certain names by which they are commonly known. These pieces of bullion, with a public stamp upon them to certify their weight and fineness, and called by a publicly recognised name,

and intended to be used for the purposes of commerce without further examination are called Coins.

This stamp, or certificate, of course, in no way affects the Value of the metal, or the quantity of things it will exchange for. Its only object is to save the trouble of weighing and assaying the bullion in commercial transactions. Nor can the *Name* of the Coin in any way affect its *Value*. Values, it is true, are estimated in the number of these pieces of bullion, or coins: but it is necessarily implied in the bargain that these coins contain a certain definite quantity of bullion.

It is also perfectly evident that if this process of stamping Bullion, and so turning it into Coin, is done free of all expense, at the will of any one who chooses to present bullion and demand to have it stamped, and also without any delay, the value of the metal as bullion must be exactly the same as the value of the metal as Coin.

If, however, a charge is made for the workmanship, or if any tax is levied on changing the metal from one form into another, or if a delay takes place in doing so, there will be a difference between the value of the metal as bullion and as coin, and this difference will manifestly be the charge for the workmanship, the amount of the tax, and the amount of interest accruing during the period of delay.

These however are all fixed, or constant, quantities, which may be ascertained, and they form the limits of the variation of the metal in one form from its value in the other.

In the following remarks we shall assume that there is no charge for the workmanship, no tax upon it, and no delay in doing it, no obstruction, in short, of any sort to changing the metal from one form into the other.

Upon these assumptions, then, we have this fundamental principle of the Coinage—

Any quantity of Metal in the form of Bullion must be of exactly the same Value as the same quantity of Metal in the form of Coin.

In the case of the coinage of England no charge of any sort is made for coining Gold Bullion: but as a considerable delay may take place before any one who brings Bullion to the Mint

can have it coined, the 7 and 8 Vict. (1844) c. 32. § 4 enacts that every person may take bullion of the standard fineness to the Bank of England, and that the Bank shall be obliged to give him Notes to the amount of £3 17*s.* 9*d.* for every ounce of such Standard Bullion. And as the holder of Bank Notes may demand legal coin for them at the rate of £3 17*s.* 10½*d.* per ounce: there is thus practically a difference of 1½*d.* per ounce between Gold Bullion and Gold Coin.

On the Meaning of the Mint Price and Market Price of Gold and Silver.

2. As the very purpose of coining is to certify that the pieces of Bullion are of a certain definite weight and fineness, it is evident that a fixed quantity of bullion, as a pound weight, must be divided into a fixed number of Coins.

The number of Coins into which a given quantity of Bullion is divided, is called the MINT PRICE *of that quantity of Bullion.*

It is perfectly clear then that the Mint Price of Bullion is a fixed quantity; it can by no possibility vary until the same quantity of bullion is coined into a different number of Coins.

To alter the Mint Price of Bullion, is merely an expression which means an alteration in the standard weight of the Coinage.

To suppose that the Mint Price of Bullion could vary is manifestly as great an error as to suppose that a hundredweight of sugar can be a different weight from 112 separate pounds' weight of sugar: or that any quantity of wine in a hogshead could differ in quantity from the same quantity of wine in bottles: or that a loaf of bread could alter its weight by being cut up into slices.

Until recent times, when more attention has been paid to the state of the Coinage, these Coins might circulate for a considerable time in a country, and lose a good deal of their weight, without losing their Value. People were so accustomed to attach a certain Value to the sight of a particular Coin, that unless they were money dealers they did not stop to inquire too curiously whether it was exactly of the proper weight or not.

In fact when a coinage has been some time in use, few people know what the legal weight of the Coins is. Many for instance do not associate the idea of a pound with any particular weight of bullion; and thus in exchange for commodities and services, Coins may pass at their nominal value for a considerable time after they have lost much of their legal weight. Thus Shakespeare says—

> "'Tween man and man, they weigh not every stamp,
> Though light, take pieces for the figure's sake."

When Coin has been for some time in circulation, it must necessarily lose a good deal of its weight from the wear and tear of circulation, even if it be not subjected to any bad practices, such as clipping, which used to be done to a great extent in this country before the practice of milling the edges was adopted. In 1816, when the last great reformation of the Coinage took place in England, the greater part of it was nothing but a thin wafer of silver, from which all traces of an impression had long since vanished; and it was reduced to scarcely more than half its legal weight.

Though Coins may circulate in a country for some time after they have lost a good deal of their weight, without any perceptible change in their value with respect to ordinary commerce, when they are given in exchange for bullion the case is different. As the value of bullion is measured weight for weight with the Coins, it is clear that if the Coins have lost weight, a *greater number* of them must be given to purchase any amount of bullion than if they were of full weight. Thus if the Mint Price of silver bullion be 5*s*. 2*d*. per ounce; or if that quantity of silver bullion is cut into that number of Coins, then if the Coins have lost their weight from any cause, it is clear that *more* than 5*s*. 2*d*. must be given to purchase an ounce of bullion. It may require perhaps 6*s*. or even more to buy an ounce of bullion.

The quantity of Coin at its full legal weight which is equal to a given weight of Bullion is called the Mint Price of that quantity of Bullion; but the quantity of the current Coin which is equal to it in weight is called the Market Price; and as, if the Coins are diminished in weight, *more* of them must be given than if

they are of full weight, the Market Price will apparently be higher than the Mint Price, and this is called a *Rise of the Market Price of Bullion above the Mint Price.*

The meaning of this is that the current Coins are deficient in their legal weight. If the Market Price of silver be 6*s.* an ounce; it means that six shillings contain only as much silver as 5*s.* 2*d.* ought to do, or that the Current Coins want one-sixth of their legal weight. Thus it is perfectly clear that the rise of the Market Price is due to the DEPRECIATION of the Coinage.

Hence we have this fundamental law of the Coinage—

When the Market Price of Bullion rises above the Mint Price, the excess is the proof and the measure of the Depreciation of the Coinage.

The Market Price of Bullion could never fall below the Mint Price, unless there was more Bullion in the Coins than there ought to be; which of course would never be the case. If such a case could happen the fall in the Market Price below the Mint Price would be the proof and the measure of the excess of the Coins above their legal weight.

3. If the Coinage of a country fall into a degraded state from long wear and tear, or other causes, and a new Coinage of full weight be issued, and allowed to circulate along with it, one of two effects must inevitably follow. Either those persons who have commodities to sell will make a difference in the nominal prices of articles, according as they are paid in full weighted, or degraded, Coin; that is the depreciated Coin will be at a discount as compared with the full weighted Coin; or if there be a law to prevent this, and to make both pass at the same value, bullion dealers will immediately collect all the full weighted Coins they can, and melt them down into bullion, or export them: so that the new Coinage will quickly disappear from circulation.

These considerations lead us to a fundamental and universal law in Economics, which has been found to be true in all countries and ages—*That bad money drives out good money from circulation* or as it is expressed in an old pamphlet—

"*When two sorts of coin are current in the same nation of like value by denomination, but not intrinsically, that which has*

the least value will be current, and the other as much as possible will be hoarded" or exported we may add.

The fact of the disappearance of good Coin in the presence of bad Coin was noticed by Aristophanes, and was long the puzzle of financiers and statesmen, who continued to issue good Coin from the Mint while the old and degraded Coin was allowed to circulate, and they were greatly perplexed by its immediate disappearance, till Sir Thomas Gresham explained the cause, whence we have called it Gresham's Law of the Currency. We shall shortly see another instance of its importance.

It is also from the same principle that a Paper Currency is invariably found to expel a Metallic Currency of the same denomination from circulation. And to shew the generality of the principle, it was found in America that when a depreciated Paper Currency had driven Coin out of circulation, and a still more depreciated Paper Currency was issued, the more depreciated Paper drove out the less depreciated from circulation.

It may be worth while to notice an error which is by no means unfrequent. Some writers contend against *fixing* the price of gold as it is called. It is now acknowledged to be a great Economical error to attempt to fix the price of any articles. Some writers contend that it is an equal error to *fix* the price of gold. But those who do so overlook a very important consideration. The word "Price" except in the single instance "Mint Price" always denotes the quantity of one article, which is used as a measure which is given for another article of a *different* nature. Thus we say that the price of a bushel of wheat is 6*s*., when the silver, the substance of which shillings are composed, is of a different nature from the wheat. But in the expression "Mint Price of Bullion," it always means the value of Bullion expressed in Coin of the *same* metal. The Mint Price of Gold Bullion means its price expressed in Gold Coin: the Mint Price of Silver Bullion means its price expressed in Silver Coin.

So long, therefore, as the Coins retain their full legal weight, the Market Price of Bullion can by no possibility vary from its Mint Price. If the law requires an ounce of gold to be coined into 3*l*. 17*s*. $10\frac{1}{2}d$., so long as the Coins retain their full legal weight, it can make no difference in the Market Price whether

gold becomes as plentiful as iron, or as scarce as diamonds; for the Money always continues at the same weight whatever be the abundance or the scarcity of the metal. The value of gold may vary with respect to other things; it may purchase more or less bread, or meat, or clothes, or anything else at one time than at another: but it is absolutely impossible that its value in Bullion can differ from its value in Coin. To suppose that it could, would be as irrational as to suppose that because bread became very abundant or very scarce, a loaf of bread could differ from itself in Weight when cut up into slices, or a cask of Wine differ from itself when drawn off into bottles.

The Mint Price of Gold, therefore, is nothing more than a public declaration of the weight of metal which the law requires to be in the Coin, which accidental circumstances have caused to be considered as the legal measure of value in this country: and an alteration of the Mint Price of Gold, would be simply an alteration in the standard weight of the Coin: and would be the same thing in principle as an alteration of the standard yard measure. Those persons who ridicule the idea of having the Mint Price of gold fixed, should, to be consistent, also ridicule the idea of having the standard yard measure fixed. Those who wish to let the Mint Price follow the Market Price should also contend that every tradesman should have his yard measure of as many inches as he pleases: because when the Market Price of gold rises above the Mint Price, it is precisely analogous to cutting so many inches off the yard. This fraudulent curtailment of the measure of value has never been done since Parliament has been the chief power in the Legislature. But it was constantly done in former times when the Crown was more despotic than it is now. The Pound at the present day is curtailed of two thirds of what it was in the time of William the Conqueror.

What is a POUND?

4. We must now explain how a certain weight of Gold Bullion has come in modern times to be called a Pound.

The original measure of value in France, England, and

Scotland, was the pound weight of silver bullion. No coin however of this actual weight was ever struck. But the pound weight of silver bullion was cut into 240 pieces called pence. Twelve of these pence were called a shilling or solidus; and therefore 20 shillings, or solidi, made a Pound. These 240 pence actually weighed a pound of bullion.

Now let us denote the pound weight of metal in the form of bullion by the symbol—lb., and the pound weight of metal in the form of Coin by the symbol—£. Then we have—

$$240 \text{ pence} = 20 \text{ shillings} = £1 = 1\text{lb.}$$

Now it is perfectly clear that if the pound weight of bullion were divided into a greater number of pieces than 240, that greater number would still be equal to the pound weight; and if we denoted by the symbol, £, 240 pieces or pence, irrespective of their weight, we should have the 1lb. equal to £1 + the number of pieces above 240.

Now this is what has been done in the Coinages of all the three countries above mentioned. The Sovereigns of these countries were frequently in want of money to pursue their various extravagances; and as they could not make more money, they adopted the fraudulent and surreptitious plan of cutting the pound weight of bullion into a greater number of pieces, but they still called them by the same name. By this means they gained an illusory augmentation of wealth. As they could not multiply the quantity of the metal, they at various periods *falsified the certificate.* While they still called their Coins by the same name, they diminished the quantity of bullion in them: and so coined more than the original number of pence out of a pound weight of bullion.

The consequence of this was very manifest. As 240 pence were still called a pound, or £, in money, whatever their weight was, and as more than 240 pence were coined out of a pound weight of bullion, the £, or pound of money in coin, began to vary from the lb., or pound weight of bullion. Edward I. began this evil practice in 1300, when he coined 243 pence out of the pound weight of bullion. Subsequent Sovereigns followed the same evil example; and this falsification of the certificate increased till in the time of Elizabeth no less than 744 pence, or

62 shillings, were coined out of the pound weight of bullion. Then we have manifestly—

744 pence = 62 shillings = £3 2*s*. = 1 lb.

As there are 12 ounces in the pound weight of bullion it is seen that each ounce was coined into 62 pence, and hence as the value of bullion is measured by the ounce, the Mint Price of silver was said to be 5*s*. 2*d*. the ounce.

Afterwards gold was coined as money concurrently with silver; and gold pieces were struck and made to pass current as nearly as could be done at the value corresponding to the market value of gold and silver. Thus there was for a considerable time a double standard. In the reign of Charles II., the African Company brought home a large quantity of gold from the Guinea coast. He had it coined into pieces called guineas, which were intended to represent the £, or twenty shillings in silver. But the Mint rating did not agree with the relative value of gold and silver in the market of the world, and consequently the value of the guineas in the market never corresponded with their value as rated by the Mint. In 1717 Sir Isaac Newton the Master of the Mint reported to Parliament that the true value of the guinea according to the relative market value of gold and silver at that time was 20*s*. 8*d*. A Royal proclamation however was issued declaring them to be current at 21*s*.; and then in the language of the Mint the price of gold was fixed at 3*l*. 17*s*. 10½*d*. an ounce.

Gold and silver coin were then made unlimited legal tender for debts of any amount. But as gold was overrated by 4*d*. in the £, and silver was underrated by 4*d*. in the £, Gresham's Law acted, and in the course of the century, merchants universally adopted the custom of paying their debts in gold as the cheapest medium, and the silver coinage was exported, as being depressed below its true value in this country. Gold therefore gradually became to be considered as *the* measure of value in England.

In 1816 this custom was adopted as law, and gold was declared to be the only legal measure of value; and the Pound, the legal tender, or measure of value, became the equivalent in gold of 20*s*. in silver.

Forty pounds weight of standard gold bullion by the regulations of the English mint are cut into 1,869 Pounds or Sovereigns,

or the 1 lb. weight of bullion is cut into 46*l.* 14*s.* 6*d.*: or as the value of gold is estimated by the ounce, the Mint Price of gold is fixed at 3*l.* 17*s.* $10\frac{1}{2}d.$ per ounce, and, as long as the Coins are ordered to be coined of the same weight, the Mint Price cannot vary.

The legal weight of a Sovereign or Pound, is 5 dwts. $3\frac{17}{23}$ grns. containing $113\frac{1}{623}$ grns. of fine gold. Sovereigns which fall below 5 dwts. $2\frac{3}{4}$ grns.; and half Sovereigns of less that 2 dwts. $13\frac{1}{2}$ grns. cease to be legal tender.

In former times Gold and Silver money were equally legal tender to any amount: and their relative values were fixed by Law: but Gold and Silver vary in their value with respect to each other in the market of the world: and consequently even though they may be rated truly at one time by the Mint, yet in course of time their value according to the Mint regulations is sure to get out of adjustment with their value in the open market; and by Gresham's law, the one that is underrated with respect to the other disappears from circulation, and gives rise to great inconvenience. Locke, therefore, in 1694, pointed out that a nation should adopt only *one* metal as the legal measure of value, and make any other that may be used subsidiary. This principle was adopted as Law in 1816; gold coin was declared the only legal tender to an unlimited amount, and the silver and copper coins were intended only as small change for the Gold Coin. The coinage of Gold is free to the public; but the coinage of silver and bronze is retained by the Government. In order to prevent the effect of Gresham's Law, the value of the silver coin is artificially raised. Instead of 62 shillings being coined out of the pound weight of silver as before 1816, 66 shillings are now coined out of it: but 4 of these are kept back for the expenses of coinage. The Sovereign however is declared to be of the value of twenty of these shillings, which are thus artificially increased in value about 6 per cent. In order to prevent injustice being done, Silver Coins are not legal tender for any sum above 40*s.* it having been intended to make the double Sovereign the Monetary Unit.

The Bronze coins are only worth about one fourth of their nominal value; and pence and half pence are only legal tender to the amount of one shilling, and farthings to the amount of 6*d.*

CHAPTER IV.

THE THEORY OF CREDIT.

1. A long series of illustrious Lawyers whose doctrines were declared to be Law by the legislation of Justinian, had brought the Theory of Credit to a state of perfection at the beginning of the sixth century. These were adopted and confirmed in the Reformed Code, called the BASILICA, promulgated by the Basilian Dynasty in the tenth century, which was the Code of the Byzantine Empire and of all Europe, except England. The Romans abandoned Britain at the end of the fifth century; and the Common Law of England on the subject of Credit was exactly as it stands in Gaius, which was the text-book of Roman Law throughout the Empire at the time when the Romans gave up Britain. But on the 1st November, 1875, the Common Law of England relating to Credit was superseded by Equity, which is simply the Law of the Pandects of Justinian.

The stupendous system of Credit and Banking which exists in this and some other countries is merely the practical exemplification of the principles of Credit which were worked out by the Roman Lawyers 1,300 years ago. But it is somewhat remarkable that while these doctrines may be found in any of the great continental Jurists, they have never yet found their way into any legal work in this country in common use. This chapter is therefore devoted to explaining the complete Theory of Credit, as developed in the Pandects of Justinian, and all the great Civilians, and which has now at length become the Law of England.

2. We shall consider the subject in the following order—

1. Investigation of the Nature of Credit.
2. On the Transfer of Credit or Debts.
3. On Instruments of Credit or Debt.
4. On the Limits and Extinction of Credit.

The investigation of the subject, moreover, opens up another most interesting branch of enquiry. For considerably more than a century Mathematicians have been in the habit of calling Debts "Negative Quantities." But very few have given any explanation of what they mean by calling a Debt a "Negative Quantity," and those who have attempted it have not succeeded, from a want of knowledge of the principles of Mercantile Law and the Facts of Commerce. We have shewn the real application of the algebraical signs in the Theory of Credit.

And when we have combined these three things together—an exposition of the Facts of Commerce—an exposition of the Law of CREDIT,—and shewn the application of the Theory of Algebraical Signs to these facts, we shall find a most beautiful exemplification of the use of these signs, strictly conformable to their use in Natural Philosophy. We shall find that the Doctrines of Law, the Practice of Commercial Men, and the Theory of Algebraical Signs perfectly agree with one another. And though we shall give nothing but a simple exposition of the mechanism of the actually existing system of Credit and Banking, we shall be able for the first time to bring Economic Theory to the level of Commercial Practice, and present results which may surprise our readers.

Investigation of the Nature of Credit.
On the Definition of Credit.

3. We have seen that all modern Economists admit that human Abilities, Energy, Skill, and Character are Wealth, because men can make a Profit by their employment. These Moral Qualities and Character may be used for the purpose of purchasing Merchandise with a Promise to pay instead of actual money: and when they are so they are in popular language termed CREDIT.

Thus Demosthenes says—"There being two kinds of Property, Money and General CREDIT, our greatest Property is CREDIT."

And also:—"If you were ignorant of this, that CREDIT is the greatest CAPITAL of all towards the acquisition of Wealth, you would be utterly ignorant."

So Melon says—"To the calculation of Values in Money there must be *added* the current CREDIT of the merchant, and his possible CREDIT."

So also Dutot says—"Since there has been regular commerce among men, those who have need of Money, have made Bills, or Promises to pay in Money. The first use of Credit therefore is to represent Money by Paper. This usage is very old: the first want of it gave rise to it. It *multiplies* specie considerably, it supplies it when it is wanting, and which would never be sufficient without this Credit: because there is not sufficient gold and silver to circulate all the products of nature and art. So there is in commerce a much larger amount in Bills, than there is specie in the possession of the merchants.

"A well-managed credit amounts to tenfold the funds of a merchant: and he gains as much by this credit as if he had ten times as much Money. This maxim is generally received among all merchants.

"CREDIT is, therefore, the greatest WEALTH to every man who carries on commerce."

Now though in popular language the merchant's general Purchasing Power is called his Credit, yet it does not enter into Economics until he actually purchases something with it.

When such a sale on Credit takes place the Property in the goods passes absolutely to the buyer as fully and completely as if the Price had been paid in Money. But at the very same instant that the Property in the goods passes to the buyer, there is a Contract, *Nexum*, or OBLIGATION, created between the buyer and the seller, which consists of two parts—

1. The Right to demand payment, in the person of the seller.

2. The Duty to pay, in the person of the buyer.

These two Quantities constitute the Contract, or the OBLIGATION, which is the bond of Law between these two persons.

It may be necessary to observe that the word OBLIGATION is

very often used erroneously to mean only the Duty to pay. But Von Savigny has clearly pointed out this error. The Obligation is the *bond* between the two parties: it includes the Right as well as the Duty: it is in fact synonymous with Contract.

In this Contract, or Obligation, the Right to demand payment residing in the person of the Creditor is termed CREDIT.

Thus CREDIT is the NAME of a kind of Incorporeal Property: it is the lowest form of an Annuity: it is an Annuity of one term: an Annuity in general is the Right to demand a series of payments: CREDIT is the *Right to demand* a single payment.

Now this Right is Property: it may be bought and sold: and hence we see the force of Roman Law—"Under the term WEALTH . . . . RIGHTS are included."

Though therefore in popular language a merchant's Credit is often understood to mean the general estimation he is held in, and the power of purchasing goods with his Promise to pay instead of actual money, it must be understood that this Credit does not come within the science of Economics until he exercises this power, and actually buys some goods with his Promise to pay; and when he does exercise this power, it is the Promise to pay, or the RIGHT OF ACTION which is created at the very instant of the transfer of the Property in the goods to him which in the language of Law, Commerce, and Economics is termed CREDIT.

Thus a Credit in bank means a Right of action against the bank for a sum of money: a Letter of Credit is a letter giving its holder a Right to demand a sum of Money: Paper Credit means Rights of action recorded on paper, such as Bank Notes, Bills of Exchange, &c.

It is sometimes supposed that the subject of Banking and Credit is peculiarly mysterious and difficult of comprehension. But in reality the whole difficulty consists in grasping the conception that Credit, as an Economic Quantity, is a species of Property, Merchandise, or Goods, or a Commodity exactly similar to a bale of cotton, a quarter of corn, a ton of coals, a horse, or a table, and may be bought and sold precisely like any other goods. Not only may Credit be exchanged against goods, but also one piece of Credit may be exchanged against another piece of Credit, just as one piece of goods may be exchanged

against another piece of goods: and every person can make a catalogue of his Rights of action against every one else, precisely in the same way as he can make a catalogue of his other goods and chattels.

4. So far all is clear: but now comes the first ambiguity in the subject, which has given rise to much misconception.

When an Obligation is created by the transfer of the Property in goods and money, the Right to demand payment is the CREDIT, and strictly speaking the Duty to pay is the DEBT.

Here is the first subtlety to be remarked. It is very often supposed that a DEBT is Money owed by the Debtor: this however is a great error. The Debt is *never*, under any circumstances, the Money owed by the Debtor: it is the PERSONAL DUTY to pay the Money. Thus Mr. Williams says—"Every person who borrows Money on mortgage or not incurs a DEBT, or PERSONAL OBLIGATION, to repay it out of whatever means he may possess."

Now this is a point of the greatest importance in the due understanding of the Theory of Credit, and has led to great error. The common and wide-spread fallacy that a Debt is Money owed by the Debtor, and belonging to the Creditor is expressly provided against in Roman Law—"The essence of an Obligation does not consist in this that it makes any specific *goods* our Property; but that it binds some PERSON to give us something."

That is to say, that no particular money in the Debtor's possession belongs to the Creditor, which he can seize upon: none is pledged to him: the Money continues the absolute Property of the Debtor, which he may spend or part with, until of his own free will he transfers the Property in it to the Creditor. But the DEBT, or the DUTY TO PAY, exists exactly as it was, no matter whether the Debtor has any Money to pay it with or not.

The difference is clearly marked in Roman Law: if any one had in his possession any goods or chattels which were the Property of another person, that person had a *Jus in re*, or a Real Right: a Right to that very thing. If he had only an abstract Right to demand something from a person, he had only a *Jus ad rem*, which is a mere Personal Right: it was also called a *Jus in personam*, or a Right against the person.

This subtlety is so important to be understood that we shall give an extract from the distinguished Jurist, Pothier—"The Right which this Obligation gives the Creditor of proceeding to obtain the payment of the thing, which the Debtor is obliged to give him, *is not a Right in the thing itself* (*Jus in re*), it is only a Right against the person of the Debtor for the purpose of compelling him to give it (*Jus ad rem*). The thing which the Debtor is obliged to give, continues then to belong to him, and the Creditor cannot become the proprietor of it, except by the delivery, real or fictitious, which is made to him by the Debtor in performance of his Obligation.

"And till this delivery is made, the Creditor has nothing more than a Right of demanding the thing, and he has only that Right against the *person* of the Debtor, who has contracted the Obligation.

"Hence it follows that if my Debtor, after contracting an Obligation to give a thing to me, transfers it upon a particular title to a third person, whether by sale or donation, I cannot demand it from the party who has so acquired it, but only from my Debtor . . . . The reason is, as the Obligation does not, according to our principle, give the Creditor any Right in the thing which is due to him, I have not any Right in the thing which was due to me, that I can pursue against the person in whose hands it may be found."

This distinction is perfectly plain, and of the highest importance in Economics: for if the Creditor had the Right to any specific money in the Debtor's possession, that would be a diminution of the Debtor's property: he would have no right to part with, or sell it: and there would in fact only be *one* Economic Quantity in existence, i.e. the quantity of Money. But as a matter of fact the whole of the money remains the Debtor's Property, which he can sell or exchange as he pleases: and *also* there is the Right or Property, in the person of the Creditor, which he can also sell or exchange: and which may be sold or exchanged any number of times like money till it is paid off and extinguished. Hence in this case there are *two* Economic Quantities in existence, which may each circulate in commerce at the same time.

5. Having explained this subtlety it might be thought that all difficulties on the subject were cleared up. But unfortunately this is not the case: we have still more ambiguities to clear up, each of which has been the cause of great misconception.

The word DEBT evidently in strictness means the DUTY of the Debtor to pay the Money. But unfortunately, the word DEBT has long been transferred to mean the RIGHT OF ACTION in the person of the Creditor: and thus it is used as synonymous with CREDIT.

We have not found in any ancient writer the word DEBITUM used to mean the *Right of Action*: but this change in its meaning had already come into use in the 12th century.

In 1194 Richard I. issued a Commission for a judicial visitation on financial matters in which it is said—"Let all the Debts (*Debita*, Rights of action) of the Jews be scheduled, their lands, houses, rents and possessions. . . .

"Also let every Jew swear that he will make a true schedule of all his DEBTS (*Debita*, Rights of action) pledges, rents, and all his property and possessions."

And this is the meaning which the word DEBT has long acquired in English Law. It means a Right of action, a Claim, or Demand.

Thus in the Statute of Acton Burnell, 11 Edward I. (1283) commonly called the Statute of Merchants, it is said—"That merchants may quickly recover their *Debts* . . . The King by his council has ordained and established that the merchant who would be sure of his *Debt*."

So the Act, 46 Geo. III. c. 125. s. 3 enacts that "one Debt or Demand" may be set off against another. Mr. Williams says—"Within the class of *choses-in-action* was comprised a RIGHT of growing importance, namely, that of suing for Money due, which RIGHT is all that is called a DEBT"—"We have seen that a DEBT was anciently considered as a mere RIGHT to bring an action against the Debtor"—"DEBTS being formerly considered as mere Rights of action."

So as may be seen in any daily paper the executors of deceased persons advertise for any persons who have "DEBTS,

claims, or demands," against the estates of the deceased to give in a statement of them.

An administrator is appointed by the Court of the "goods, chattels, and CREDITS of the deceased."

Thus it is seen that the words CREDIT and DEBT are used as synonymous in Law.

Accordingly in the Digest of the Law of Bills of Exchange, Bank Notes, &c. which we prepared for the Royal Commissioners for the Digest of the Law we began with the following fundamental Definition of the subject—

"CREDIT *or* DEBT, *in Legal and Commercial* [*and Economical*] *language means a* RIGHT OF ACTION *against a Person for a sum of Money.*"

On the Ambiguity in the Meaning of the word Loan: or the Distinction between MUTUUM *and* COMMODATUM.

6. We now come to the next ambiguity which has been the cause of great confusion in the Theory of Credit in recent times.

All the older writers, who were chiefly men having a practical knowledge of business, seeing that Credit causes exactly the same circulation of commodities as Money, said that Credit is Capital, without entering into any very nice definition either of Credit or Capital.

Smith expressly classes Paper Currency, such as Bank Notes, Bills of Exchange, &c.—which are CREDIT—under the title of Circulating CAPITAL.

Since the time of the French Economist, Say, however, this doctrine has been the subject of much ridicule. He says in one passage which has been repeated by a multitude of writers, that those who say that Credit is Capital, maintain that the same thing can be in two places at once. They conceive that Credit is the material thing lent, or the transfer of it; and then they ask—How can the same thing be in two places at once, and be used by two persons at the same time?

The whole misconception is founded on an ambiguity in the

meaning of the words LOAN and LEND, which words are used to denote two operations of a perfectly distinct nature.

There are two kinds of Right—the Right of Possession and the Right of Property.

Suppose that I LEND my friend a Book or a Horse: that is I allow him to have a Right of Possession and use of them for a certain time. Then it is clear that I and my friend cannot both have the Book, or the Horse, at the same time. But though I *lend* him the Book or the Horse, they still remain my PROPERTY. I do not transfer my Property in them to my friend. He is not my Debtor nor am I his Creditor, and if I wanted to have them back, and went for them, and found him not at home, I should have no scruple in taking them away.

But suppose that I had LENT my friend £5, and if as before, wanting them back, I went and found him not at home, would I, if I happened to see his purse lying on the table, open it, and take £5 out of it? I should instinctively feel that I should do no such thing. I should have no scruple whatever in taking back the Book or the Horse I had LENT: but I should never dream of opening my friend's purse, and taking out £5 I had LENT.

Thus without giving any particular thought to the subject, every one would instinctively feel that there is an essential distinction between the cases of LENDING a Book or a Horse, and lending £5. Or if he were so obtuse on the subject, the Law would point out the distinction. The Law would tell him that he might take away his own Book, or his own Horse, if he pleased; but that if he opened his friend's purse, and took out £5, he would be guilty of theft: and that he must request his friend to pay him, but that he must not help himself.

So if a man pays in money to his account at his banker's, *i.e.* *lends* him money, and if he drew a cheque on his banker for £20, would he venture himself to take 20 sovereigns off the banker's counter? Of course he would not. He would request his banker to pay him: and he must wait until his banker gives him the money of his own free will. If he ventured to take the money himself it would be larceny, and he might be given in charge to a policeman.

In fact though both these operations, *lending* a Book or a Horse, and *lending* Money, are called a LOAN, they are of an essentially distinct nature. When a man lends a book, or other chattel, to his friend, he does not part with, or dispossess himself of the *Property* in it. He is entitled to have that very Book, or the very Chattel, back again. There is no *Exchange*, and no New Property created. And only one person can have the use of the book or the chattel.

But in all cases whatever of a LOAN of Money, the lender absolutely cedes the Property in the money to the Borrower, and it becomes his absolute Property. What the lender does acquire is the Right, or Property, to demand back an equivalent amount of money, but not the specific money. A loan of money is, therefore, always an EXCHANGE, and in all such cases there is of necessity a NEW PROPERTY created: and this NEW PROPERTY is termed CREDIT: and it may be sold and transferred like the Money itself.

The same principle is true of the LOAN of many other things, such as wine, bread, meat, oil, &c. If I *lend* a loaf of bread, or a bottle of wine, to a friend, the only way he can use them is by destroying them, or *consuming* them. Hence I must of necessity transfer the Property in them to him: and what I acquire in return, is the Right of demanding an equal amount of equal quality in return. It is the same with Money. A man can only use money by paying it away: and all he can do is to give back to the lender at some future time an equal quantity of money. In English Law the former kind of Loans (*i.e.* the loan of a book or other chattel) are said to be returnable *in specie*, that is, the identical things are restored: in the latter kind of Loan the things are said to be returnable *in genere*, or only similar things are given back. In the former kind of loan, the relation of Debtor and Creditor is not created: in the latter, the relation of Debtor and Creditor is created between the Borrower and the Lender.

Precisely the same relation is created on the sale of goods on Credit. The Property in the goods is ceded absolutely to the buyer: and what the seller receives in exchange for the goods is

the Right, or Property, to Demand their Price in money at a future time: and this Right or Property, is termed CREDIT.

Hence it must be observed that the Economic Quantity called Credit or Debt, is the Right which is created on a LOAN of money, wine, bread, oil and things of that nature, to demand back an equal quantity to the things lent: or the Right which is created on a SALE of goods on Credit to demand their Price in money at a future time.

Thus the confusion has arisen from the English language having but one word, LOAN, to denote two operations of an essentially distinct nature: the French language is equally faulty. But the distinction is clearly pointed out in Roman Law, and the Latin language has a distinct word for each operation.

It is said in the paraphrase of Theophilus of the Institutes of Justinian, which we prefer to quote, because it is more full and distinct than the Institutes, and it superseded them as the authorised text book of Roman Law—

"A Real Obligation is contracted by an act, or by the manual delivery of something counted out: and this includes the MUTUUM.

"A thing is a MUTUUM when the Property in it passes to the person who receives it, but he is bound to restore to us, not the identical thing delivered, but another of the same Quality and Quantity. I said, so that the receiver becomes the Proprietor of it, that I might exclude the COMMODATUM and the DEPOSITUM: for in these latter the receiver acquires no Property. But he must be bound to us, to exclude the DONATION, for he who receives one acquires the Property, but he is not bound to us. I said that he must restore not the identical things, but others of similar Quality and Quantity, that I might not deprive him of the use of the MUTUUM. For a person takes a MUTUUM, that he may use the things for his own purposes, and return *others* instead of them. For if he were obliged to give back the *same* things it would be useless to borrow them.

"But all things are not taken as MUTUA, but only those which consist in weight, number, and measure, &c. In *weight*, as gold, silver, lead, iron, wax, pitch, tin: in *measure*, such as oil,

wine, corn: in *number*, such as money. And in short whatever we deliver with this intent, in number, measure, or weight, so as to bind the receiver to return us, not the same things, but others of the same nature and quantity. Whence also it is called MUTUUM, because it is transferred by me to you with the intent that it should become your Property (*ut de meo tuum fit*).

"But the Real Obligation includes COMMODATUM: as if any one were to ask me to lend him a book, and I lend it .... But the COMMODATUM differs widely from the MUTUUM. For the MUTUUM transfers the Property, but the COMMODATUM does not transfer it, and therefore the borrower (*commodatarius*) is bound to restore the very thing lent.

So it is said in the Digest—"But it is called giving a MUTUUM because from being my Property it becomes yours (*quod de meo tuum fit*); and therefore if it does not become your Property no Obligation is created."

But on the contrary with respect to the COMMODATUM—"We retain the Property and Possession of the thing lent (*rei commodatæ*)"—"No one by lending (*commodando*) a thing, gives the Property in it to him he lends it to."

Modern scholars repudiate the fanciful etymology of *mutuum* from (*ex meo tuum fit*), though it held its place so long in legal text books. *Mutuus* evidently comes from *muto*, as *deciduus* from *decido*, and *dividuus* from *divido*. It is so called because there was an exchange of Properties. But though the derivation is fanciful, it exactly expresses the fact. Unless there was an *exchange* of Properties there was no *Mutuum*. All commercial loans are MUTUA, and not COMMODATA. Every loan of money is in reality a sale, or an exchange, in which a NEW PROPERTY is created, which is called CREDIT or a DEBT: and when the money is returned, or the loan repaid, it is another exchange, by which this New Property is extinguished.

On the Distinction between a DEBT *and a* BAILMENT: *or the Distinction between a* MUTUUM *and a* DEPOSITUM.

7. We have now to trace the consequences of this distinction between the MUTUUM and the DEPOSITUM, because they each give

rise to a class of Paper Documents of a totally distinct nature. And it has been the confusion between these two distinct classes of Paper which has been at the root of most of the false theories of Credit and Currency which have produced such terrible catastrophes in the world.

There are two species of Paper Documents which are in general use in commerce, and which have some superficial resemblances—that is they both convey Rights to certain things and are similarly transferable, and are, therefore, considered by many to be of the same nature; but which are yet fundamentally distinct in their nature: and in this radical distinction is contained the basis of the Theory of Credit.

These species of Paper Documents are—

I. BANK NOTES, BILLS OF EXCHANGE, and other forms of CREDIT.

II. BILLS OF LADING, DOCK WARRANTS, and all other TITLES to specific goods.

In order to understand clearly the fundamental distinction between these classes of Paper Documents, we will explain how each of them arises.

It has already been shewn that in all Loans of the nature of the *Mutuum*, and in Sales of goods on Credit, the Property in the money or the goods is transferred to the borrower or the buyer, and in *exchange* for it the lender or the seller receives the Property or Right to demand a sum of money: which Right may be recorded on paper: and may be bought and sold like any other goods or merchandise.

Now when a person pays in money to his account at his banker's it is a MUTUUM: the *Property in the money passes absolutely to the Banker*. He is not the TRUSTEE or the BAILEE, of the money: but it becomes his Property. He is the OWNER of it, and is entitled to use it in any way he pleases, for his own purposes. In *exchange* for this money, he creates a CREDIT in his customer's favour, promising to deliver an equal amount of money on demand. The transaction is an exchange or sale. The Banker buys the money from his customer, and sells him in exchange for it, the Right to demand an equal quantity of money at any time he pleases, and it has VALUE, because the owner of

it can *exchange* it for money, or anything else. The Banker is not the Trustee of the money, but he is simply the DEBTOR to his customer: and if unfortunately he should happen to fail, his customers or creditors are only entitled to have his property divided among them, and they must take their chance of having their Debts paid in full.

It is exactly the same in all cases of Mercantile Credit. The merchant or trader who buys goods on Credit, is not the TRUSTEE or BAILEE of the goods, but their PROPRIETOR. The seller of the goods cedes the Property in them absolutely, and receives in exchange only the abstract Right to demand payment at a future time. Like the Banker, the buyer is simply the Debtor to the seller. In both cases there is a New Property created, which may be recorded on Paper, either in the form of a Bank Note, or a Bill of Exchange, which may be bought and sold quite independently of any specific money. Hence all forms of Paper Credit are absolutely separated from any specific money, and that is the very reason why they are called CREDIT, because the holder of them has nothing but a Right to demand money from some person.

But the case is quite different with the other class of Paper Documents. When a man ships goods on board a vessel, he receives from the captain a Paper Document, acknowledging the receipt of the goods, and promising to deliver them to whomsoever shall be the owner of the Paper Document called the BILL OF LADING.

The shipper of the goods sends the Bill of Lading to the consignee, who, directly he receives it, may negotiate it, *i.e.* transfer it by indorsement to whomsoever he pleases, in all respects like a Bill of Exchange, and it may pass through any number of hands, and whoever is the owner of it at any time may go and demand the goods from the captain.

Similarly when goods are deposited in a Dock Warehouse, the Dock Master gives a Paper Document, or receipt for them of a similar nature to the Bill of Lading, which is called a Dock Warrant. This is transferable in all respects like a Bill of Lading, or a Bill of Exchange, and whoever is the owner of the

Dock Warrant, is the owner of the goods described in it, and is entitled to demand and receive them from the Dock Master.

Now it is especially to be observed that in these two cases, although the goods are delivered into the temporary custody of the captain, or dock master, they have no *Property* in them. The Property in the goods remains with the shipper, or depositor, and is transferred by him along with the Bill of Lading or Dock Warrant. The goods are what is called in Roman Law, a mere DEPOSITUM. The captain or the dock master is the mere BAILEE or TRUSTEE of the goods, and *not* the OWNER, as in the case of the MUTUUM. He has no right to convert them to his own use, and if he did so, it would be a *robbery*, and he would be liable to be punished as a *thief*. Thus in these cases the goods are merely delivered into the temporary custody of the captain, or dock master, for a certain defined purpose, and *no* New Property is created. The Bill of Lading and the Dock Warrant form ONE Property with the goods, and cannot be separated from them. The goods travel *with* the Paper Document. Thus it may be said in this case that the Paper Documents *represent* goods. In this case there is no *exchange* and these documents have no VALUE, i.e. they are not exchangeable separately. They are not exchangeable for goods generally, but are TITLES to certain specific goods, and no others. No one ever spoke of the *Value* of a Bill of Lading or a Dock Warrant. Such Documents are not CREDIT, because the owner of them does not simply *believe* that he can obtain goods in exchange for them, but he *knows* that he has become the owner of certain specific goods. Such a transaction is not an Exchange, but what is called in Law a BAILMENT.

So also if a man takes a bag of money to his banker, and asks him to take care of that specific money, and give it back to him, or to any one else he may name, on demand, no Property in the money would pass to the banker. It would not be a MUTUUM, but a DEPOSITUM or BAILMENT. The banker would have no Right to use the money for his own purposes: and if he did so he would be guilty of theft. If he gave a receipt for it promising to deliver the money to whomsoever the receipt might

be transferred, the receipt would be *one* property with the money, as in the case of Bills of Lading and Dock Warrants. The money and the receipt could not be separated, and the Property in that very money would always pass along with the receipt. The Banker in such a case would be merely the BAILEE or TRUSTEE of the money and not its OWNER. In the case of the captain, the dock master, and the banker, just described, the relation of Debtor and Creditor does not arise between them, and the owners of the Paper Documents.

Hence we see the radical and fundamental distinction between Bills of Lading, Dock Warrants and all other Titles to specific goods on the one hand, and all forms of Paper Credit on the other.

Bills of Lading, Dock Warrants, and other Titles to goods, are absolutely bound down to these specific goods, and cannot be separated from them, and therefore they form only *one* Property with them. They always arise out of a BAILMENT and never out of an EXCHANGE; and they may justly be said to represent goods. They in themselves are nothing, and are no addition to the mass of other exchangeable Property.

On the other hand it is the fundamental legal requisite of all kinds of PAPER CREDIT, that they shall be absolutely severed from any specific sum of money. They are even forbidden to be made payable out of any particular fund. They must be nothing but abstract Rights against the PERSON, and that is the very circumstance from which they take their name: because they must be received on the simple *belief* that the person can pay them. If any specific sum of money were appropriated to their payment they would not be CREDIT. Paper Credit always arises out of an EXCHANGE, and never out of a BAILMENT. Bills of Lading and Dock Warrants always go along with goods: Bank Notes and Bills of Exchange are always exchanged for money, goods, &c. Bills of Lading *represent* goods, but are not of the *Value* of goods, because there is no exchange, and there can be no Value without an exchange. Bank Notes, &c., do not *represent* money, but they are of the *Value* of Money, because in their case there is always an exchange. And Credit in all its forms is an addition to the mass of other exchangeable property: as, in-

deed, is admitted by every Lawyer, every Merchant, and every Economist.

From this it clearly follows that Bills of Lading and Dock Warrants can never exceed in quantity the goods they represent. If any one were to negotiate such documents without any goods being attached to them, it would be an indictable fraud. But Paper Credit of all sorts immensely exceeds in quantity the Money in the country—on the lowest calculation, tenfold. Credit itself is merchandise, and the subject of a gigantic commerce. It may be said that all commercial crises arise out of the excessive creation of that species of Property called CREDIT. What are the due limits of Credit, is a question of the most momentous consequence, which will be clearly shewn hereafter.

We have shewn that in Roman Law all Rights, and Credit among them, are included under the terms *Pecunia*, *Bona*, *Res*, *Merx*; so also in English Law a Debt, or *chose-in-action*, or Credit is included under the terms "Goods" and "Chattels." It is an article of Merchandise, or a Saleable Commodity.

Thus Sheppard says under Chattels—

"All kinds of emblements, sown and growing grass cut: all money, plate, gold, silver, jewels, utensils, household stuff, DEBTS, wood cut, wares in a shop, tools and instruments for work, wares, merchandises, carts, ploughs, coaches, saddles, and the like: all kinds of cattle, as horses, oxen, kine, bullocks, goats, sheep, pigs, and all tame fowl and birds, as swans, turkeys, geese, capons, hens, ducks, poultry, and the like, are to be accounted CHATTELS."

"All Obligations, Bills, Statutes, Recognizances, and Judgments, shall be as a CHATTEL in the Executor.

"All Right of action to any personal action is a CHATTEL."

So it was resolved by POPHAM, Chief Justice of England, and many other Justices, that "personal actions are as well included within this word *goods* in an Act of Parliament, as goods in possession."

So in another case Lord Chancellor HARDWICKE said—"And DEBTS come within the meaning of the Act, and would pass in a will thereby." BURNET J. said—"A bond-debt is certainly a CHATTEL." So PARKER L.C.B. said:—"But goods and chattels

include DEBTS "—"things in action are considered as goods and chattels." LEE, C.J. said—"The inquiry on the second point is, whether *choses-in-action* are not included under goods and chattels? and I agree . . . . this is now out of question, *choses-in-action* will be included therein. *Fulwood's* case 4 Co. 65 proves that a *chose-in-action* (as an obligation) is a CHATTEL. So *Staunf. Prerog.* 65, c. 16 says that Chattels comprehend Right of action to goods." And HARDWICKE C., said—"*Choses-in-action* are properly within the description of goods and chattels."

So Blackstone says—"For it is to be understood that in our law, *chattels* (or *goods and chattels*) is a term used to express any kind of Property which, having regard either to subject matter, or the quantity of interest therein, is not freehold."

"Property or Chattels personal may be either in *possession*, or else in *action* . . . Property-in-action is where a man has not the enjoyment (either actual or constructive) of the thing in question, but merely a Right to recover it by a suit or action at law."

We need not give any more quotations; in fact, those which we have given are only intended for the benefit of lay readers. Every person who has studied the most elementary principles of Law, knows perfectly well that a Right of Action or a *chose-in-action* is a personal chattel like any other species of property: but it is just on this point that the greatest difficulty is felt by lay readers to understand how a mere Right of Action is saleable Property, just like so much iron, corn, gold, lead, coal, or anything else.

On some Erroneous Ideas as to the NATURE *of* CREDIT.

8. We have still another erroneous view of the nature of Credit to clear away. We have seen that the preceding errors arose from not observing the distinction between MUTUUM and COMMODATUM and DEPOSITUM. From the first error proceeded the erroneous notion that those who say that Credit is Capital say

that the same thing can be in two places at once: from the second that Bills of Lading and Dock Warrants are of the same nature, and are Credit, as well as Bills of Exchange. The third form of error which we have now to dissipate is that Credit adds nothing to the resources of the world, because it is neutralised by something else.

Any person practically conversant with commerce, and seeing the immensely greater portion of commercial operations effected by means of Credit, would smile at the notion that Credit adds nothing to the resources of a nation: but some have been misled by a very palpable error. Henry Thornton, an able man, a banker, and one of the authors of the Bullion Report, says—"Paper constitutes it is true an article on the Credit side of the books of some men, but it forms an exactly equal item on the Debit side of the books of others. It constitutes on the whole neither a Debit nor a Credit."

So another eminent banker M. Cernuschi says—"The balance sheet of every individual contains three accounts: existing goods, Credits, and Debts. But if we collected into one all the balance sheets of every one in the world, the Debts and the Credits mutually neutralise each other, and there remains but a single account: existing goods.

"The totality of the goods, therefore, forms the general inventory. There is the first matter of exchange. The Debts and Credits are subsidiary matters. Debts and Credits are reciprocally transmitted as goods are transmitted: but however great or small they may be, and through whatever hands they pass, Credits for some, Debts for others, they add nothing to, they take away nothing from, the general inventory."

The argument of Thornton and M. Cernuschi is simply this—

Suppose A to have £100 in money, and *also* a three months' bill of £50 on B. Suppose B to have £100 but at the same time to have accepted a bill of £50 at three months to A. Then A's property would be stated thus £100+£50; B's property would be stated thus £100−£50. Now the argument of these writers is this—that the +£50 and the −£50 balance each other, and the result is 0: which according to them is the same thing as saying that these Quantities do not exist at all.

This view might perhaps seem at first sight somewhat specious, but a very little reflection will shew that it is quite erroneous.

Suppose that a landlord lets a house to a tenant. In exchange for the use of the house the landlord receives the Right to demand a certain sum, three months after date, we will suppose. The transaction is an Exchange. The Right to demand the money is an actually existing Right in the Landlord; it is his Property, which he may sell or transfer to any one else. It is, therefore, *plus*, +, to him, and an *addition* to his other Property. The tenant is bound to pay this Rent: but does that cause any diminution of his *present* Property? Does the Property in any of the money at his banker's pass to the landlord? Certainly not. Hence it is quite clear that this obligation to pay at a *future* time is no diminution whatever of his *present* Property. In fact he is not in Debt at all until he has had the use of the house for three months, and the day of payment has come.

Similarly if a merchant buys goods and gives a bill at three months in payment of them, the transaction is an exchange. The Right to demand payment is *plus* to the seller of the goods: it is his Property, which he may sell and dispose of like money. But the goods remain the entire Property of the merchant, which he may sell or dispose of: *and he is not in Debt at all, till the Bill becomes due.* Suppose that the landlord, or the seller of the goods, were to bring an action for the Rent, or the Price, before the end of the three months, the tenant, or the merchant, would reply that they were not in debt at all. The well known maxim of Law is that *Credit unexpired may be pleaded under the general issue*, which means that if a man sues another for an obligation not yet due, he may simply reply that he is not in debt at all.

Thus Mr. Pitt Taylor says—"In addition to these examples, it may be observed that, whenever the defendant can show that in fact *no Debt ever existed* before action brought, he may do so under the plea of never indebted. For instance if the action be for goods sold and delivered, he may defend himself under this plea by proving that they were sold on Credit, which was unexpired when the action was commenced." Hence we see that

in this case, the $-£50$ does not mean that it is to be *subtracted* from his *present* Property.

This then is the paradox. The Right to receive the future Rent is the absolute Property of the landlord: and therefore in this case + means addition.

But though the tenant is bound to pay the Rent, and it is therefore — to him, it is not to be *subtracted* from his *present* Property, and is no diminution of it.

What then does it mean?

Mathematicians have since the time of Maclaurin given Debts as an example of "Negative Quantities," but they have never given any satisfactory explanation of what is meant by this order of Negative Quantities.

The explanation usually given is this—a man's Property may be considered as positive, and his Debts as negative: subtract his Debts from his Property, and the remainder if any is his Capital. And as the national Capital is the aggregate Capital of all the individuals in it, according to this doctrine, in order to find the quantity of property in the country, all the floating debts in it would have to be subtracted from all the Property in it, and the remainder would be the amount of national Capital.

So Peacock, the distinguished Algebraist, says—"If property possessed or due could be denoted by a number or symbol with a *positive* sign, a *debt* would be indicated by a number or symbol with a *negative* sign, or conversely: such affections of property are correctly symbolised by the signs + and —, since they possess the *inverse* relation to each other, which these signs require: for if to a person A there be given a certain property or sum of money combined or *added* to a debt of equal amount, his wealth or property remains the same as before."

Now in a certain sense these modes of statement may be correct. If a man were going to retire from business, he would call in and discharge his liabilities, and the remainder, if any, would be his fortune.

But such a mode of statement is quite unsuitable for Economics. Debts are a species of Property of the most colossal magnitude, and are the subject of commerce, as much as any

other merchandise, until they are extinguished. Economics has only to do with them while they exist, and are the subject of commerce.

The fallacy of the mode of statement of the writers we have just quoted is evident, and is precisely the one which we have already pointed out was carefully provided against in the Digest. For they evidently consider a Debt to be some of the Debtor's property set apart and pledged to the Creditor, and therefore a *diminution* of the Debtor's property. But this is a most grievous error: a Debt is not part of the Debtor's money or goods affected with the Negative sign, but the personal DUTY of the Debtor to pay: and until the time of payment has arrived, there is *no* DUTY and *no* DEBT. Hence while the Right created on the exchange of the goods is an Economic Quantity which may be exchanged and sold any number of times, as indeed these writers admit, the Debt or Duty is NON-EXISTENT or LATENT, and has no effect at all: hence the goods and the Credit given in exchange for them, are *two* Economic Quantities, and may *both* be sold and transferred any number of times. And in Economics we have only to consider the number of Economic Quantities, and their relations of exchange.

We will give a very simple example to shew how very erroneous the method of stating the question by Thornton and Cernuschi is. Suppose a banker holds a merchant's acceptance not yet due. Suppose at the same time the merchant holds an equal amount of the banker's notes. According to the method of statement of these writers, the mutual debts cancel each other, and the result is *nothing*. But this is manifestly erroneous: because the banker may if he pleases put the merchant's acceptance into circulation, and the merchant may put the banker's notes into circulation. Hence there would be two Economic Quantities in circulation, and producing the same effects as so much money. Hence in Economics these Quantities are not to be considered as extinguished until they are so in reality. But the same may be said of any Economic Quantity: when it is destroyed it is no longer an Economic Quantity. The same principle is true with regard to Credit, or Debt, as with any other Quantity: so long as it exists, and is

capable of being exchanged it is an Economic Quantity: when it is extinguished, and only then it ceases to be one.

On the Meaning of the Positive *and* Negative Signs *in* Economics.

9. We have now to explain the meaning of the Negative Sign in the Theory of Credit, or Debt.

Two Algebraists of the highest eminence have attempted to explain the application of the Negative Sign to the subject of Debts, or Credit, but they have fallen into exactly the same error as Thornton and Cernuschi.

Euler says—"The manner in which we generally calculate a person's property is an apt illustration of what has just been said. We denote what a man really possesses by positive numbers, using or understanding the sign +, whereas his debts are represented by negative numbers, or by using the sign −. Thus when it is said of any one that he has 100 crowns but owes 50, this means that his real possessions amount to 100 − 50, that is to say 50.

"As negative numbers may be considered as debts, because positive numbers represent real possessions we may say that negative numbers are less than nothing. Thus when a man has nothing in the world, and even owes 50 crowns, it is certain that he has 50 crowns less than nothing: for if any one were to make him a present of 50 crowns to pay his debts, he would still be only at the point nothing, though really richer than before."

It is quite evident that Euler has, in this passage, fallen into exactly the same error as Thornton and Cernuschi: namely that of considering a Debt to be money pledged to the Creditor: and so affected with the Negative sign. But as we have distinctly shewn that a Debt is a Personal Duty, it is quite evident that a Personal Duty cannot be subtracted from a sum of money.

It is quite easy to shew that the first paragraph is not a suitable mode of stating the question in Economics. For suppose that a man has 100 crowns, and that he is bound to pay 50 crowns one year hence: it would be quite inaccurate to say that his property is only 50 crowns, or (100 − 50). For he has the 100 crowns to trade with in the meanwhile, as his

absolute property: and all that he is bound to do is to have on a certain day at the end of the year 50 crowns to discharge his debt. But the owner of the Debt may put it into circulation, and it may produce all the effects of money till it is paid. So that there may be the 100 crowns *and* the debt of 50 crowns as well, circulating simultaneously in commerce. And yet his property might be correctly stated $(100 - 50)$ crowns. Here it is quite clear that the 50 crowns are not to be subtracted from his *present* property. Now by the *Law of Continuity*, the same must be true if we diminish the period of payment gradually from one year by small gradations of a day at a time, till we reduce it to 0, or make the debt payable on demand. The fact is that the expression is to be read this way—he possesses 100 crowns as his property, but coupled with the DUTY of paying 50 crowns at some given time.

So in the second paragraph, when he possesses no crowns, and owes 50 crowns, he is said to have less than nothing. This clearly means that he is under the DUTY, or OBLIGATION, to pay 50 crowns, and has nothing to pay them with. Now let us suppose that being in this position, as Euler says, some one makes him a present of 50 crowns to pay his debt, he is clearly 50 crowns richer than before, and yet his property is now only $= 0$. This is an example of $+ \times +$ giving $+$. Thus Euler is right so far as he goes: but he has manifestly stated only one half of the case. Because there is another combination of algebraical symbols which gives $+$, namely $- \times -$: and there is another method in commerce of arriving at the same practical result. Suppose his Creditor *Releases* him from his debt, his property would then also $= 0$: and as in the former case, he would be 50 crowns better off than before.

Thus Releasing a debtor from the Duty to pay money, is exactly equivalent to making him a present of money. This shews that the Release $(-)$ of a Debt $(-)$ is the same thing as an Increase $(+)$ of Wealth $(+)$, or that $- \times - = + \times +$; a principle of the most momentous consequence in modern commerce.

Peacock has fallen into exactly the same error; for he considers a Debt as Money or Property owed; which is exactly the

error which the Digest, Pothier, and other Civilians have so carefully pointed out. Peacock considers that the subtraction of a debt is the change of the character or affection of money owed to money possessed: in which he is quite mistaken, for the subtraction of a debt is not changing the Right in the money from the Creditor (which does not exist) to the Debtor, but simply extinguishing the Debtor's Duty to pay it.

10. The perplexities of the Theory of Credit can only be unravelled by the great modern Algebraical doctrine of the *Separation of the Signs of Affection or Position and Operation.*

Writers who are not versed in Natural Philosophy have no conception of the signs + and − meaning anything but *addition* and *subtraction*, whereas the symbols +, 0, and − have an immense variety of meanings in Natural Philosophy, according to the particular circumstances under which they occur: and it is wholly impossible to determine their meaning, until we know the particular state of circumstances out of which they arise.

Every great science is founded on some single idea, or conception, or quality, which must be of the most general nature, and every Quantity whatever in which that quality is found is an element in that science no matter what other qualities are found in it. Quantities therefore utterly dissimilar in every other respect are elements in that science, so long as the single fundamental quality is found in them.

Now as Economics is the science of Exchanges, or Values, it necessarily follows that every Quantity whatever, which is capable of being exchanged or valued, must be an Economic Quantity, no matter what its nature is, enduring or evanescent, corporeal or incorporeal.

But these Quantities in the various sciences may be endowed with *opposite* qualities, and when they are so, it is universally the custom in Natural Philosophy to distinguish them by the signs + and −.

They are then called Signs of AFFECTION or POSITION.

The instances of this which might be quoted from the various branches of Natural Philosophy are innumerable, and we will only quote a few to illustrate our meaning, and furnish analogies to guide us to the solution of the perplexities of Economics.

Thus in Algebraical Geometry, in which it is necessary to fix the position of lines, it is usual to take some fixed point called the Origin, and then lines drawn in *opposite* directions from that point are distinguished by *opposite* signs. Thus if lines to the *right* of it are called *Positive*, and distinguished by the sign +, then lines drawn to the *left* of it are called *Negative*, and are denoted by the sign −. If lines drawn *up* from it are *Positive* and denoted by the sign +, then lines drawn *down* from it are *Negative* and denoted by the sign −.

If two mechanical forces act in *opposite* directions one is called *Positive* and the other *Negative*.

So in Parliament the supporters of Government may be called +, and its opponents −.

Now in many of these cases it may happen that the Quantities endowed with these opposite qualities may balance each other, and the result may be 0: but it would manifestly be an error of the greatest magnitude to say that because under some circumstances these Opposite Quantities may neutralise each other's effects, that is the same thing as saying that they do not exist at all.

Suppose that on a division the numbers for Government were 340, and the numbers against Government 300. Then for practical purposes it might be said that the strength of the Government was 40: because the − 300 neutralise the effect of the + 300. But it would be clearly an enormous error to say that that is absolutely the same thing as saying that these 600 members do not exist at all. It is perfectly clear that there are 640 Parliamentary units. It is quite clear that to find the total number of Parliamentary units we must *add* the opposition to the ministerialists, and not *subtract* them.

It is an error of precisely the same nature to say that, because a man possesses £100, and at the same time has accepted a bill for £50 payable three months after date, there are only £50 in existence as Economic Quantities. No doubt it might be said that for practical purposes the man's fortune was only £50. But the £100 and the £50 bill may *both* circulate independently in commerce at the same time: and hence while they do so, and until the £50 bill is paid and extinguished there are £150 of

Economic Quantities. When the bill is paid and extinguished, it ceases to exist as an Economic Quantity.

11. Now this idea of Opposition is applied to a continuous line: or to *motion* in a continuous line. If any point be taken as 0, then the part of the line on one side may be denoted by +, and the part on the other side by —.

Thus in a thermometer some fixed point is taken as 0, and degrees above that point are called +, and degrees below —.

Now if the mercury passes from a certain number of degrees on either side of 0, to any number of degrees on the other side, it is quite clear that in order to find the total number of degrees passed over, the degrees on *both* sides must be *added* together. That is the Negative degrees must be *added* to the Positive degrees and not *subtracted* from them.

The same idea is applied to TIME in Natural Philosophy, which may be considered as motion in a continuous line. If any point in Time be taken, such as the present moment, or any fixed era, then this point is denoted by 0, and Time on opposite sides of this point will be denoted by opposite signs. Thus if we call Time, such as years, *before* this era +, or Positive, then Time after this point will be —, or Negative: and the successive intervals will be expressed thus—

. . . . + 5, + 4, + 3, + 2, + 1, 0, — 1, — 2, — 3, — 4, — 5, . .

where the sign + merely means that the years it is affixed to were before the given era; and the sign — means that the years it is affixed to were *after* a given era.

It is quite clear that if we want to find the number of years between any event which happened some time *before* this era, and another event which happened some time *after* it we must *add* the number of years on *both* sides of 0.

Thus if the birth of Christ be the given era, or 0, the years before Christ will be *Positive* and the years after Christ *Negative*. To find the number of years from the foundation of Rome to the present time we must add together + 753 and — 1875 years, or 2628 years altogether.

12. As an illustration of the application of the Positive and Negative signs to Time, let us take an example which will be very useful in Economics.

A father's age is 40, *and his son's* 15, *when* WAS *the father twice the age of the son?*

Let x be the number of years before the present time, when the father *was* twice the age of the son—

$$\text{Then,} \quad 40 - x = 2\,(15 - x)$$
$$\text{or,} \quad x = -10$$

Now what does this Negative answer mean?

It means that the father never *was* twice the age of the son in Time *past*, which we have taken as Positive in the question. The epoch of his being twice the age of his son is to be found in Time *opposite* to the *past*: namely in Time *future*. He *was* not twice the age of his son 10 years *ago*: but he *will be* so 10 years *hence*: as is very clear: for in 10 years the father will be 50 and his son 25.

Hence if any event be Positive which *has* happened in Time *past*, the same event is Negative if it *is to* happen in Time *future*.

13. These illustrations, which might be immensely extended by examples taken from every branch of Natural Philosophy, are sufficient to exemplify the doctrine which we have endeavoured to explain that universally in Natural Philosophy the Negative sign −, does not mean Negation or non-existence, but OPPOSITION, or CONTRARIETY, and that Negative Quantities have as real and independent an existence as Positive ones, and are to be enumerated separately and independently, as Quantities in that science, to find the totality of Quantities. In fact absolute Quantities have no sign at all: the Positive and Negative signs are only introduced when some idea of Opposition, Contrariety, or Inverseness occurs.

14. But moreover Inverse or Opposite Operations may be performed on these Quantities which are already affected with these opposite signs. And these Inverse or Opposite Operations are also denoted by the same signs + and −. And the combination of these opposite signs of opposite operations with the signs of opposite qualities affecting these Quantities, that is the combination of the signs of Affection and Operation give rise to the well-known Algebraical rules—

$$+ \times + \text{ gives } +$$
$$+ \times - \quad ,, \quad -$$
$$- \times - \quad ,, \quad +$$
$$- \times + \quad ,, \quad -$$

These laws, which are universally applicable in Natural Philosophy, are equally applicable to Economics, and are alone capable of giving the solution of the Theory of Credit, which has hitherto been the opprobrium of the science.

It will be found that there are Economic Quantities of Inverse or Opposite properties, and therefore, following the strictest analogy with Physical Science, we shall denote them by *opposite* signs: and also opposite Operations may be performed on these Opposite Quantities bringing into play the well known Algebraical rules, which will lead to consequences which may surprise some of our readers.

Hence Algebra in general, and Commercial Algebra with which we are at present concerned deals with QUANTITIES and OPERATIONS. And whenever any of these Quantities, whatever their nature be, possess any Qualities whatever, or are affected by any relations of an opposite nature, they are distinguished by the opposite signs + and −.

Thus Time Past and Time Future; and therefore Products which *have been* produced in Time Past, and Products which *are to be* produced in Time Future: and consequently the RIGHTS to these Products respectively: Active and Passive: RIGHTS and DUTIES: may all be distinguished by the signs + and −.

So among Operations: Adding and Subtracting: CREATING and DESTROYING: Receiving and Paying: may be denoted by the same signs + and −.

Hence if the RIGHT to DEMAND £100 be denoted by + £100: the DUTY to PAY £100 will be denoted by −£100: without any reference to any specific £100.

15. The use of the terms Positive and Negative to denote *opposition* is very commonly used by Jurists as well as by mathematicians.

Thus Ortolan uses the terms Positive and Negative Rights to denote Rights to *acts* and Rights to *forbearances*.

In its relation to a Right a Duty is Negative. But Duties themselves are termed Positive and Negative: as there is the Duty to *do* something and the Duty to *abstain* from doing something. Hence we may say that in this case we have a Negative sign within a Negative sign, as we shall presently find will be the case in Economics.

Arguing from these analogies in Mathematics and Law, we are quite at liberty in Economics to apply the terms Positive and Negative to Quantities and Operations of opposite qualities.

16. We shall now shew the application of these principles to Economics.

We have shewn that Property is a Right residing in the person. Now a man may have a Right to some specific actually existing thing, the produce of the *past*; and he may also have the Right to receive things which will only come into his possession at a *future* time, and some of which may not even come into existence till some future time. But each of these Rights is Property, and they may each be bought and sold: and therefore they are each Wealth. Consequently the totality of a man's Wealth is the SUM of the two kinds of Property. Now following the ordinary analogy of Natural Philosophy, if we denote the accumulated products of his industry already realised by the sign +, and call them Positive, we may call the products which will only come into his possession at a future time by the sign −, and call them Negative.

If we have some quantity like land which produces a series of products: and if we take the present time as the given era, which we denote by 0: then all the products which the land *has* produced in time *past* may be called Positive: and all the products it *will* produce in time *future* will be Negative.

But although these products will only come into existence at a *future* time, yet the Property or Right, to receive them when they do come into existence is PRESENT. Hence the total amount of Property in land comprehends the Right to the produce of the *past*, TOGETHER WITH the Right to the produce of the *future*: and as the Property in the produce of the past is INVERSE, or OPPOSITE, to the Property in the produce of the future, if we call the

former Positive, the latter will be Negative, strictly in accordance with the principles of Natural Philosophy.

Now suppose that we purchase an estate in land for £100,000: where is the Value of our money? Does it consist in things which have a present existence? The veriest tyro would answer —certainly not. Where then is the equivalent for the purchase money?

When we purchase an Estate in land we purchase the Right to the actually existing produce of land and labour, such as the houses, the timber trees, the crops on the ground, together with the Right to receive its annual produce for ever: a series of products which will only come into existence at definite intervals of time for ever. Thus Property in land consists of two perfectly distinct parts: Property in the products of the *past*, and Property in a series of products of the *future*, say £3,000 a year for ever, which may be represented thus—

Existing produce of land (+) together with $-£3{,}000$, $-£3{,}000$ $-£3{,}000$, &c. for ever.

Where the Negative Sign means that the products will only come into existence at *future* definite intervals of time.

But though the yearly produce of the land will only come into existence at future intervals of time, the Property, or Right, to receive them when they do come into existence is present, and may be bought and sold like a horse or a table. That is to say, each of these annual profits for ever has a Present Value: and the purchase money of the land is simply the sum of the Present Values of this series of future payments for ever.

Now the Right to receive any, or any number, of these future profits is an Estate in land: and as the entirety of these Estates may belong to a number of different persons, we have the whole legal doctrines of Estates in remainder, in fee, in tail, in reversion, &c., with all their complications.

Again although this series of future payments is infinite, a simple Algebraical formula shews that it has a finite limit. When the usual Rate of Interest is 3 per cent., the total Property in land is worth about 33 times its annual profit. Consequently if we buy the existing crop on the ground, only *one* part is Corporeal, the remaining 32 are Incorporeal.

Now when a purchaser has bought land, it may be said, without any very great metaphor, that it OWES him a series of payments for ever: for he bought it merely in the belief of its capacity to produce future profits. Hence we may call this Right to receive the future produce of the land, the CREDIT of the land: and of course by the notation we have adopted, it is NEGATIVE.

Now a merchant, or trader of any sort, carrying on a profitable business, is an Economic Quantity which bears in many respects a strong analogy to land. He may have accumulated a quantity of money, the fruits of his past industry: but over and above his accumulated money, he possesses his abilities, his skill, and experience, his character, his capacity in short, or expectation of earning Profits in the future, as he has already done in the past. Thus the Value of a man as an Economic Quantity, just as the Value of land, consists in the Property in the products of his past industry, *together with* the Property in the products of his future industry, which of course, are INVERSE or OPPOSITE, to each other. And as in the previous case if we choose for the sake of convenience to designate the one, Money, as Positive, we may for the sake of distinction designate the other as Negative.

And there are two ways in which the merchant may trade: he may buy goods by exchanging some of his Property in money, or the fruits of his *past* industry: or he may buy goods by giving in exchange for them the Right, or Property to demand money at a future time which *is to be* earned by his industry. This Purchasing Power of buying with a Promise to pay instead of with actual money, is, as we have seen in popular language, termed CREDIT. And as Wealth is *anything* which has Purchasing Power, it evidently follows that Money and Credit are equally Wealth.

But as we have already seen that Capital is any Wealth, or Economic Quantity, used for the purpose of Profit, Money and Credit may be equally used as Capital.

But as we have already seen that Money and Credit are INVERSE or OPPOSITE to each other, Money may be called POSITIVE CAPITAL, and Credit may be called NEGATIVE CAPITAL in strict conformity with the analogy of Natural Philosophy.

17. Now as far as we have gone, we have found the adaptation of the Negative Sign sufficient to explain the classification of Property. No one who has studied the Theory of the Negative Sign as developed by mathematicians within the last century, can fail to see that the designation of Property in the proceeds of the *future* by the Negative Sign, for the purpose of contra-distinguishing it from Property in the proceeds of the *past* is strictly analogous to its use in Physical and Mathematical Science. A man's Property in the future earnings of his own industry is as clearly a part of his Property, as his right to reap the produce of his own land. And he may sell and transfer or trade with, and make a Profit by, or make Capital of, the one as well as the other.

But as we have observed this general Purchasing Power, or CREDIT, of the merchant does not enter into Economics until he actually does make a purchase, or effect an exchange with it; and when he does so considerations of a somewhat complex nature arise: and we must describe the facts in order to see how they are to be classified.

When a trader purchases goods with his Credit, or his Promise to pay, the goods become his absolute Property, just as if he had bought them with money. But exactly at the same instant that the Property in the goods is transferred to him, an Obligation, or *Nexum*, or Contract is created between the two parties, the buyer and the seller. There is created in the person of the seller, or the Creditor, the RIGHT to DEMAND payment for the goods at the agreed upon time; and also there is created in the person of the buyer or the Debtor, the DUTY TO PAY for them at the fixed time.

This Contract, or Obligation, therefore, contains within itself the RIGHT to DEMAND and the DUTY TO PAY: and as these two are manifestly INVERSE or OPPOSITE to each other, if the *Right to demand* is POSITIVE, the *Duty to pay* is NEGATIVE. For a DUTY may manifestly be called a NEGATIVE RIGHT, just as a Retarding force may be called a Negative Accelerating force. And here at last we have found the true meaning of the expression used by Mathematicians that Debts are Negative Quantities. Property is a RIGHT, but Debt is a DUTY. A Contract, therefore,

contains two opposite Quantities, the *Right to demand* and the *Duty to pay*: and as these are created simultaneously, can only exist simultaneously, and can only be extinguished simultaneously, they are closely analogous to Polar Forces.

Now the error of Thornton, Cernuschi, Euler, Peacock and many others, consists in this, that they consider the Debt to be an actual specific portion of the Debtor's Money, or Goods, separated from his other property, and pledged to the Creditor. But this is a most important and fundamental error. The Debt as we have shewn already has been clearly pointed out in Roman Law, by Pothier, and many others, is the PERSONAL DUTY to pay money: and no doubt the Duty to pay at a future time is created: but it is not a Debt *in presenti*: it is only a Debt *in futuro*: it is not a Debt or *due* until the period fixed for payment has come. And therefore until that period has come, it may be treated as absolutely latent, or non-existent. And even supposing that the Debt is payable on demand like a banker's Notes, it may be treated exactly in the same way, until the Notes are actually presented for payment. But the Right to demand, or the Credit, is the present Right, or Property, of the Creditor, which may be sold and transferred like any other goods and chattels, and therefore it is "*Res*" "*Bonum*" "*Pecunia*" and "*Merx*," and forms the subject of a colossal commerce. And this Credit or Right can only be extinguished by being revested in the person of the Debtor from whom it originally emanated.

Hence the true definition of Credit as an Economic Quantity, or an article of commerce, is the *Present Right to a Future Payment*.

We shall now see the importance of the error we have just noticed. If a Debt were Money, or Goods, in the Debtor's possession, affected with the Negative Sign, and Pledged to the Creditor, of course if a man had no money or goods, he could not be in Debt, and insolvent, because he would have no Money or Goods that could be affected with the Negative Sign, or be pledged to the Creditor. But the Credit and the Debt are nothing but a legal Bond between the two parties, and are nothing more than a PERSONAL RIGHT to demand and a PERSONAL DUTY to pay: a man may have no Money and yet be in Debt £100.

The Creditor's *Right to demand* and the Debtor's *Duty to pay* exist quite irrespective of the fact that he has any money or not. If the Debtor cannot pay his Debt the Creditor's Right may lose its Value: but that does not destroy its existence, any more than a piece of Money would be annihilated, if placed in a situation where it could not be exchanged, and therefore, where it would have no Value. Smith himself says that if a guinea could be exchanged for nothing, it would have no more Value than a bill upon a bankrupt: but that would not destroy its existence as a material substance. So also in like manner, the Debtor's inability to pay does not in any way destroy his DUTY to pay.

This Credit then being Property may be sold, exchanged, bequeathed, or presented as a Donation to any one, precisely like any other merchandise or like Money.

Hence by our very definition a Credit is Wealth. But the Debt is not Wealth, for it cannot be sold. Many persons would buy the *Right to demand* £100, but no person would ever dream of buying a *Duty to pay* £100. So far as regards Economics, or the Science of Exchanges, the *Duty to pay* is an absolute nullity: it is not a subject of sale or exchange. It in no way impedes the Debtor's Right to sell any money or goods he may possess; and it in no way prevents the Creditor from selling his Right: hence it is to be entirely neglected as an Economic Quantity: what its real effect is we shall see presently.

Now let us suppose that a Debtor owes £100, and is utterly insolvent. Then his Property is represented by $-£100$ *i.e.* the DUTY to pay £100. The Creditor's Right is of course represented by $+£100$. Suppose that the Creditor presents the Debtor with his *Right to demand* as a Donation, as he may do to anyone else or to him. Then the Debtor has now in his own person both the Duty to pay £100 or $-£100$, and the Right to demand £100, or $+£100$: his Property is then $-£100 + £100$: these two opposite Quantities, of course, cancel each other like $+a$ and $-a$ on the same side of an Equation; the Contract or the Obligation is *extinguished*: and the Debtor is now freed from his Debt. He is now £100 richer than before, though his Property is now $= 0$. And it is quite clear that this result has been obtained,—*not* by

changing Money owed into Money possessed, as Peacock says, because there has been no Money at all in the case—but by the Gift or addition of a Positive Quantity which cancelled the Negative Quantity, and annihilated the existence of *both* Quantities. Like Polar Forces they were created together and they vanish together.

18. Hence it must be carefully observed that in Economics both Money and Credit, both the possession of actual Money and the *Right to demand* Money from some one else are denoted by $+£100$: but $-£100$ means solely the *Duty to pay* money: and of course it is only the Right which can cancel the Duty. The possession of Money can never cancel the Duty to pay it: for then, of course, no Debtor would ever be bound to pay his Debts. Hence it must be carefully observed in what case $+£100$ will cancel $-£100$ in Economics. It *never* does so when $+£100$ denotes actual Money: nor will it do so when the $+£100$ denotes a Right against any other person than the Debtor himself: because a person may hold another person's acceptance, and yet be under an Obligation on his own acceptance. It is only in the case in which his own Creditor transfers to him the Right of action against *himself* that $+£100$ can cancel the $-£100$, and simultaneously annihilate the existence of BOTH Quantities. This consideration which the slightest reflection on the ordinary facts of the system of Credit will shew to be obviously true, is of the greatest practical importance.

Hence we see that the Release of a Debt is exactly equivalent to a Gift of Money, or to Payment.

This doctrine, which is expressly laid down in Roman Law, and is enforced by all Jurists, is of the greatest importance in commerce: but we must reserve its fuller consideration until we come to the extinction of Obligations, or Credit.

19. We shall now shew the strict propriety of calling Money and Credit Positive and Negative Capital.

We have already shewn that the true character of Money is that it is a Right to a future payment; and numerous Economists have said the same thing. Money is a Right, but Debt is a Duty. And this exactly corresponds with the common Algebraical doctrine that Quantities passing through 0, change

their sign. Because when a man has spent all his Money, his Property being then 0, and then runs into Debt, he has exhausted all his *Right to demand* (+) and has incurred a *Duty to pay* (−).

Now a merchant's Purchasing Power consists of his Money AND his Credit. But he cannot purchase with his Credit without incurring a Debt: that is without incurring the *Duty to pay* for the goods he buys with his Credit.

If he buys goods with Money and sells them again with a Profit, he first replaces the Money he laid out, and the surplus is his Profit.

If he buys goods with his Credit, and sells them as before, with a Profit, he discharges the Debt he has incurred, and the surplus is his Profit.

In either case his Profit consists in the excess of his Property at the end of the operation above what it was at the beginning.

If he trades with Money, he makes Capital of the *realised* Profits of the *past*: if he trades with Credit, he makes Capital of the *expected* Profits of the *future*. In both cases he makes Profits: hence by our definition both Money and Credit are Capital: but as they are INVERSE and OPPOSITE to each other if Money is POSITIVE Capital, Credit is NEGATIVE Capital.

By a somewhat curious coincidence of thought the early Algebraists, not comprehending the meaning of Negative roots of equations, called them fictitious roots. Thus in the problem we gave of the father's and son's ages, the answer came out *Negative*, which merely shewed that the question should have been stated in the *opposite* way to which it was done: and it should have asked, when the father's age *would be* twice that of his son, instead of when it *had been*: and therefore as the Positive sign in that problem meant *past* time the Negative sign meant *future* time. But this root though Negative is equally a real root of the equation as the Positive one. So also many writers seeing the effects of Credit, call it *fictitious* Capital, and Money *real* Capital. But the fact is that, like the Negative, or fictitious, root of the equation, it is equally *real* as the Positive root, only *inverse* or *opposite* to it. Credit merely makes Capital of *future* Profits.

20. It is a matter of considerable interest to discover what is the proportion which Money and Credit bear to each other in modern commerce. The difficulties, however, which prevent private inquirers from arriving at any reliable information are very great, and those opportunities which are presented by Parliamentary inquiries into Commercial Crises are very rarely made use of for any but their immediate purpose. In the Report of the Committee, however, of the House of Commons on the crisis of 1857, there occurs an interesting statement by Mr. Robert Slater. Having analysed the operations of his house for 1856 he gave in the following statement as shewing the proportions in which each million of payments and receipts were made in money, bank notes, and other Instruments of Credit—

RECEIPTS.

	£	£
In Bankers' Drafts and Mercantile Bills of Exchange payable after date	533,596	
In Cheques on Bankers, &c., payable on demand	357,715	
In Country Bankers' Notes	9,627	
		900,938
In Bank of England Notes	68,554	
In Gold	28,089	
In Silver and Copper	1,486	
In Post Office Orders	933	
		99,062
		£1,000,000

PAYMENTS.

	£	£
By Bills of Exchange payable after date	302,674	
By Cheques on London Bankers	663,672	
		966,346
By Bank of England Notes	22,743	
By Gold	9,427	
By Silver and Copper	1,484	
		33,654
		£1,000,000

Here we have it shewn that in this great house which there is no reason to suppose we may not consider a fair representative of commerce in general, gold and silver only entered into the

receipts to the extent of 3 per cent. and Bank of England Notes to the amount of about 7 per cent.; the remaining 90 per cent. being entirely in Credit. Of the payments, gold and silver were only 1 per cent. and bank notes 2 per cent.: the remaining 97 per cent. being effected by mere Credit. In Scotland specie enters even in a far less degree into payments. This may give some idea of the stupendous power of Credit in this country.

On the TRANSFER *of* CREDIT *or* DEBTS.

21. Many persons when they see that a Bank note is transferred from hand to hand like a piece of money, might think that any other Debt might be sold or transferred with equal facility. Nevertheless there is considerable subtlety about the sale of Debts, or Rights of action, and it was only on November 1, 1875, that it became legal in England for a Creditor to sell his Debt without the consent of his Debtor, so as to enable the Transferee to sue in his own name. We will give a short sketch of the rise and progress of the power of selling Debts.

Property is of two kinds—

1. Property in a specific chattel (*jus in re*) without being related to any one else, called also *Dominium*. When a person has such a sole and exclusive Right in a thing he may sell or transfer it to any one else, in any way he pleases. Money is subject to this sort of Property: and hence a man may freely sell and transfer his own money, or any other chattel.

2. Property held in Contract or Obligation (*jus in personam*); where a person has a Right, but in connection with, or relation to, some one else.

But Property held in Contract is of two kinds—

(*a.*) Where each party has Rights to receive and Duties to perform: such as the *Nexum*, or Obligation, between Lord and Vassal in feudal law: or that between Master and Servant at the present time. This is termed a BILATERAL, or SYNALLAGMATIC, Contract.

(*b.*) Where there is only a Right to receive on one side and a Duty to perform on the other: such as the relation between

Creditor and Debtor, or Landlord and Tenant in modern times. This is called a UNILATERAL Contract.

Now, formerly it was held universally that wherever Property was held in Contract of either sort, neither party could substitute another person for himself, at his own will and pleasure, and without the consent of the other party to the contract.

This rule must manifestly hold good in all Bilateral Contracts: because, as each side has a Duty to perform, of course the person who has that Duty to perform, cannot substitute any one else to perform it, without the consent of the other party.

Thus so long as the feudal law retained its pristine rigour, neither the Lord nor the Vassal could substitute any one else for himself without the consent of the other party. So in the case of Master and Servant at the present day: a master cannot transfer his household to any one else without their own consent, as if they were cattle or slaves. Neither can a servant substitute any one else in his place without his master's consent.

The same principle originally held good when the Contract was unilateral, as in the case of Creditor and Debtor. The Creditor could not transfer his Right of action against the Debtor, because the Debtor never agreed to pay any one except his own Creditor. It is a rule of law and of common sense, that no man can contract for another without his consent. Unless, therefore, the Debtor had agreed with the Creditor that he might transfer his Right, the Creditor had no power to guarantee his Transferee that the Debtor would pay him.

But, nevertheless, though this may be true in theory, the party in an Obligation of this form who has the Right to demand soon begins to insist upon the power of transferring this Right, like any other Property. And there is a very good reason for this. For in the Obligation, or Contract, of Debt, there is manifestly a strong distinction between the two parties, the Creditor and the Debtor. The Debtor cannot substitute another Debtor for himself, because the Creditor may not have the means of knowing the solvency of the substituted Debtor. Therefore by the very nature of things, the consent of the Creditor is indispensable to the substitution of a new Debtor. As for instance

no one can compel his Creditor to take payment of a Debt in the notes of a country banker. But the case of the Creditor is different. If a person really owes a debt and has the means of paying it, it cannot make the slightest difference to him, whether he pays it to A or to B, provided he can get a discharge for it, and is not called upon to pay it twice over. Hence it is evident that whilst the assignment of a new Debtor might seriously prejudice the Creditor, the assignment of a new Creditor can be no real prejudice to the Debtor.

The Romans did not till a very late period adopt the practice of recording the evidence of Debts in written documents, the delivery of which is equivalent to the delivery or transfer of the Credit itself.

Accordingly if the transfer of a Debt was to take place it was necessary for the three parties the Creditor, the Debtor and the Transferee to meet together, and then they agreed before witnesses that the Creditor might transfer his Right against the Debtor to the Transferee. When this was done the Creditor was discharged from his Debt to the Transferee, and at the same time he discharged the Debtor from his debt to him. The contract established between the Transferee and the original Debtor was termed a *Novatio*, and the assignment of the Debtor to the Transferee as a new Creditor was termed *Delegatio*. When this transaction was completed the Transferee might sue the Debtor in his own name, as there was now a privity of contract between them.

But the Creditor could not transfer his Debt to any one else without the consent of the Debtor, because he could not undertake that the Debtor should pay it.

In early Roman times no one could sue as attorney for another. But in process of time this rule was relaxed, and parties were allowed to be represented by attorneys. The Transferee of a Debt was then allowed to sue as the attorney of the Transferor.

But in the year 224 A.D. the necessity for this formality was abolished and by a Constitution of the Emperor Alexander Severus, the absolute freedom of the sale of Debts without the knowledge and consent of the Debtor was recognised and

allowed. And since that time a Debt was as freely saleable as any other chattel by the general Mercantile Law of all Europe.

This clears up an obscurity about the law of Bills of Exchange. It has sometimes been doubted when Bills of Exchange were made transferable, as there are no words of transferability in the earliest specimens of bills which remain. But the fact is that they required no words of transferability; they were so by the general law of the Roman Empire.

The rule of the Common Law of England with respect to the transfer of Debts was exactly the same as that of Rome. A Creditor could not transfer his Right to any one else so as to enable the Transferee to sue the Debtor in his own name, without the consent of the Debtor. But if the parties met and agreed to the transfer of the Debt, then the Transferee might sue the Debtor because there was a privity of contract between them. It was also held in a series of decisions extending from the reign of Edward III. to William III. that if a Debtor, or Obligor, gave a written instrument made transferable to assignees, then that the Creditor might transfer this instrument to any one else, and that the Assignee might sue the Debtor in his own name.

If, however, the Creditor transferred his Right without the consent of the Debtor the Transferee could not sue in his own name, but he might sue in the name of the Transferor.

Equity however adopting the law of the Pandects of Justinian always allowed the Creditor to transfer his Right to any one else, and would compel the Transferor to allow the Transferee to sue in his own name; or if that was not possible for any reason, it would allow the Transferee to sue in his own name.

Such was the state of the Law until the passing of the Supreme Court of Judicature Act in 1873, which enacted that from the date of the Act taking effect, the Rules of Equity should prevail over the Rules of Common Law wherever they conflict. This Act came into operation on the 1st November, 1875; on which day the sale of Debts became absolutely free in England, and thus the Law of England is now the same as has been the Law of all Europe since the Constitution of Alexander Severus in 224 A.D.

Upon INSTRUMENTS *of* CREDIT.

22. Credit, or Debt, then being an Exchangeable Right, or an Economic Quantity, a Commodity or Merchandise, which may be bought and sold, cannot of course, in that form, be the subject of manual delivery. The Greeks hit upon the plan of recording this Right upon a material, and when this was done, the Right itself was capable of manual delivery, like any other Chattel.

When the Right is recorded on paper, this paper is in English Law termed an INSTRUMENT, and it must be observed that in this case the word Instrument bears a technical meaning which is often overlooked.

The word *Instrument* has two meanings which are often not distinguished. Sometimes it means a tool, or means, or implement by which something is effected. Thus, Smith speaks of money as "the great *instrument* of exchange" or "*instrument* of commerce." But also Bills and Notes are often spoken of as "Instruments," or as "Instruments of Credit," or "Instruments of Debt."

Now it must be carefully observed that in the expressions, "Instruments of Credit" and "Instruments of exchange," the word Instrument has two distinct meanings which are often overlooked.

In "Instruments of Exchange" it signifies the means by which circulation or exchange is effected. In "Instruments of Credit" it means a Record, or Document, of the Debt.

In Roman Law the word *Instrumentum* means any evidence, whether oral, or written, by which the Court or a Judge is instructed as to the merits of the case, or informed of a fact. In English Law however it is restricted to written evidence, and thus it is exactly equivalent to the word *Document*, which is any writing which teaches or informs the Court of a fact. It means simply a written record.

This meaning is very common in English: thus out of innumerable examples we may quote from Hallam—"is abundantly manifest by the *instruments* of both the kings"—"by mutual

instruments executed at Calais." Thus in these cases the word *instrument* means a Document, or Record.

Hence an Instrument of Credit or Debt, means any written evidence of a Debt: and in Courts of Law and legal treatises these documents are invariably termed instruments.

Instruments of Credit are of four forms.

1. Orders to pay money.
2. Promises to pay money.
3. Credits in banks, termed Deposits.
4. A mere acknowledgment of a Debt usually called an I. O. U.

Many persons feel a difficulty in admitting such things as Bank Notes and Bills of Exchange to be Wealth, seeing that they are but so many pieces of paper. But it must be observed that it is not exactly the Paper Document which is Wealth—that is only the evidence or the Record of the Right: it is the Right itself which is the Economic Quantity or Wealth: it subsists and may be exchanged quite independently of any paper, and even if the paper is destroyed, the Right is not destroyed: it may be written on a fresh piece of paper. So many persons are somewhat startled at calling so many figures in a banker's ledger Wealth. But these figures are merely the evidence of the Rights which exist in the persons of the customers of the banker, and they may be put into circulation at any moment by means of Cheques. These Deposits, therefore, or Credits in bankers' books, are in real effect so many Bank Notes, and if one be admitted to be Wealth the other must be so too. They are each of them nothing but Transferable Rights of action.

These written Documents of Debt are often termed Instruments of Credit, and also Negotiable Paper: but the former term is far preferable because, since Bills of Lading and Dock Warrants have been made negotiable—like Bills of Exchange—they are included in the title of Negotiable Paper. We have pointed out the fundamental distinction between these two classes of paper documents, which is of the greatest consequence in Economics: and it can only lead to confusion to class under one denomination documents of such distinct natures: for as we have shewn

Bills of Lading and Dock Warrants are not of the nature of Credit at all.

Instruments of Credit are in two forms. When a Creditor has a Right of action against a Debtor it may be recorded in two ways. 1. It may be in the form of an ORDER from the Creditor to the Debtor to pay him, or any one else he may name. 2. It may be a PROMISE emanating from the Debtor to pay his Creditor or any one else he may name.

On BILLS *of* EXCHANGE *and* PROMISSORY NOTES.

23. In its most general form a Bill of Exchange is a letter from a Creditor to his Debtor, ordering him to pay (1st) a certain sum of money: (2nd) to a certain person: (3rd) at a certain event.

The definition of a Bill of Exchange usually given is essentially defective: because it is usually said to be an Order from A to B to pay C, or order, a sum of money. Now it is true that all Bills of Exchange are Orders to pay money, but all Orders to pay money are not Bills of Exchange.

It is essential to the nature of a Bill of Exchange that it should be addressed to the person who OWES the money as a DEBTOR. If the order be addressed to a person who merely *holds* the money as a DEPOSITUM, as a BAILEE, TRUSTEE, AGENT, or SERVANT of the writer, it is not a Bill but a DRAFT: and there are most important Economic distinctions between the two Instruments.

The usual form of a Bill of Exchange is as follows—

£287„15„8. London, May 4, 1875.

Three months after date pay to myself (or A. B.) or order, the sum of Two hundred and eighty seven pounds fifteen shillings and eightpence for value received.

WILLIAM SMITH.

To Mr. John Cox,
Linendraper,
Strand, London.

The Creditor who addresses the letter is termed the *Drawer*: the Debtor to whom it is addressed is termed the *Drawee*: and the person to whom it is to be paid is termed the *Payee*.

It is the payee's business, on the first convenient opportunity after he has received the letter to present it to the Drawee to know if he will pay it. If he agrees to do so it is usual for him to write his name with the word "accepted" across the face of the Bill: he is then termed the Acceptor.

The drawer may make the bill payable either to himself or to his order: or to a third person or to his order. If it were made payable to the drawer only, or to a third person only, without inserting the words "or order," the bill before the recent statute, could only be paid to the person named, and could not be transferred to any one else so as to enable him to sue in his own name—that is it could not be NEGOTIATED, as it is termed. Such Instruments were said to be NON-NEGOTIABLE: whereas Instruments made payable to the Payee, or order, were said to be NEGOTIABLE, because they might be transferred to any one else.

But this distinction is now abolished: any Bill, whether made payable to order or not, may be freely transferred, and the presentation of the Bill to the acceptor for payment is a sufficient notice to him of the transfer of the Debt.

When the words "or order" were inserted after the Payee's name he was obliged to signify this order by writing his name on the back of the Bill: hence it is called an INDORSEMENT: the person who does it is called the INDORSER: and the person to whom it is delivered is called the INDORSEE.

The Indorsee may, if he pleases, indorse it again to some one else; and if he makes it payable to that person only, it is called a *special* indorsement, and can only be paid to him: but if he delivers it over to the Indorsee simply with his name written on the back, it is called a *general* indorsement, or an *indorsement in blank*. Its effect is to make the bill transferable by mere delivery, without any further indorsement, exactly like a bank note or money, and the bill is then *payable to bearer* like a bank note.

Formerly indorsement was in all cases *necessary* to transfer

the property in a Bill or Note: but this has long ceased to be the case in English Law. It became the custom of merchants in England, which has long acquired the force of Law, that any Instrument of Credit indorsed in blank may be transferred by simple delivery without any further indorsement.

It is however still the custom to indorse them on a transfer—at least there are very few persons who would take them without indorsement. And the effect of the indorsement is this—that if the bill is not paid by the acceptor at maturity, and if the owner or holder of it gives *immediate* notice to any or all of the preceding parties to it, he has the right to enforce payment of it from them.

But this demand for payment must be made without delay, in almost all cases within 24 hours after the fact of non-payment is known to the holder. If delay be made in notifying the fact and demanding payment from the parties liable, they are absolved, and the holder's remedy is gone.

Thus in modern practice, the indorsement is merely a limited *warranty of soundness*. There is no other difference between buying goods or money with a bill, with or without indorsement, than between buying any other such article as a horse, a watch, or a carriage, with or without a limited warranty. It is in all cases a Sale. In the case of a bill taken without an indorsement, or a horse bought without a warranty, the sale is final and conclusive: in the case of a bill taken with an indorsement, or a horse bought with a warranty, the sale may be cancelled if the defect be discovered, and the demand made within the time limited, otherwise it is also final and conclusive.

The general rule of English law now is that if any Instrument of Credit whatever, whether it be a Bank Note or a Bill of Exchange, be taken in exchange for goods or money in any transaction without indorsement: or if the period allowed for making the claim in the case of an unpaid bill be suffered to elapse, it is a final closing of that transaction, and the receiver has no remedy against the transferor, if the instrument is not paid. *The payment is, in fact, in all respects as valid and final as if it were money.*

Except only in the case of fraud, where the payer knew that

the banker, or person, whose Note or Bill he tendered was bankrupt or insolvent.

It is usual in English bills to insert the words "for value received," but it is not necessary. In a recent case it was said that they have no more meaning than "your obedient servant" at the end of a letter.

A Promissory Note is an absolute Promise to pay (1st) a certain sum of money: (2ndly) to a certain person: (3dly) at a certain event. It is usually expressed thus—

£143.4.9. London May 4th 1875.

Three months after date I promise to pay John Stiles, or order, the sum of one hundred and forty three pounds four shillings and ninepence, for value received.

Timothy Gibbons.

In this case Timothy Gibbons is called the *Maker* of the Note and John Stiles the *Payee*.

Promissory Notes were in reality by the Common Law of England as valid as Bills of Exchange, in fact formerly it was quite as usual to draw Bills of Exchange in the form of Promises to pay as in that of Orders to pay. This however escaped observation, and a strange idea took possession of Lord Holt and the Court of King's Bench in 1691–1704 that Promissory Notes were not recognised by the Law Merchant and the Common Law: in consequence of these decisions the Act, Statute 1704, c. 8, was passed placing Promissory Notes exactly on the same footing as inland bills of exchange, that is making them transferable by indorsement on each separate transfer.

In the case however of Bank Notes (by which in Law is always meant Bank of England Notes), as these were always payable on demand, and the payment was quite secure, the practice of indorsement soon fell into disuse, and they passed from hand to hand like money. In the case of private bankers of good credit the indorsement was often omitted. But though the ceremony of indorsement was omitted as superfluous, that in no way altered the character of the Instrument, and the

receiver of the Note took it entirely at his own peril, and ran exactly the same risk as if he took any other Instrument of Credit without indorsement.

On Banking Instruments of Credit.

24. The Bills of Exchange and Promissory Notes just described may be called Commercial Instruments of Credit, because they arose out of the transactions of merchants. The introduction of Banking into England gave rise to two new forms of Paper, which may be called Banking Instruments of Credit.

The essential nature of "banking" is, as we shall shew hereafter, to buy Money and Commercial Debts by creating Credit, or Debt payable on demand. When a customer had so much Credit at his account, the Banker would if he wished it give him a Promissory Note payable to bearer on demand, or at such other time as might be desired; this is called a Banker's Note.

Or the customer might write a note to his banker desiring him to pay any sum at his Credit to any one or to bearer on demand or at such other time as he named. This was formerly called a Cash Note, but is now called a CHEQUE.

On the LIMITS *and* EXTINCTION *of* CREDIT.

25. In the preceding sections we have clearly shewn that Credit is the name of a certain species of Incorporeal Property, which is of the same nature as, but inferior in degree to, Money: and that it fulfils exactly the same functions as Money as a Medium of Exchange, or Circulation: also that it is Property cumulative to Money: that is, it is over and above, or additional to, the quantity of Money in use. In the following chapters we shall exhibit the actual mechanism of the System of Credit, and shew how it is the great productive or circulating power of modern times. Credit in fact is to Money what Steam is to water: and like that power, while its use within proper limits is one of the most beneficial inventions ever devised by the ingenuity of man, its misuse by unskilful hands leads to the most fearful calamities. Credit like steam has its limits; and

we have now to investigate the proper Limits of Credit, and the various methods by which it may be extinguished. It is UNEXTINGUISHED CREDIT which produces those terrible monetary cataclysms which scatter ruin and desolation among nations. It is by the excessive creation of Credit that *over-production* is brought about, which causes those terrible catastrophes called Commercial Crises: and the inability of Credit-shops to extinguish the Credit they have created—commonly called the failures of Banks—is the cause of the most terrible social calamities of modern times.

The true Limits of Credit may be seen from the etymology of the word. Because all Credit is a *Promise to pay something in future.* And that "something," whatever it be, is the VALUE of the promise. That *something* need not be Money. It may be anything else. The practice of interest, or usury, was in force before the invention of Money. It may be a promise to do something. As an example of this we may take a postage stamp, which is a promise by the State to carry a letter. And this service is the Value of the stamp. Now every one knows that a postage stamp is a valuable thing. It passes currently as small change. People take postage stamps as equivalent to pence, because they often wish to send letters by the post. Postage stamps are Credit: and the regulation that they may be converted into money at any post office makes them in all respects part of the Currency of the country. They are in fact 1*d.* notes.

The only real difficulty in the case is to comprehend that the abstract "Promise to pay" is independent exchangeable property, quite distinct from the thing itself; and it may circulate in commerce, just the same as the thing itself. Every one can see the truth of this by his own experience who sees Bank Notes, Cheques, Bills of Exchange &c. circulating to the amount of hundreds of millions, and performing the functions of Money.

But of course, it is manifest that the VALUE of the Promise is the THING itself: and consequently if the thing itself fails, the Promise has lost its VALUE. This consideration, therefore, at once indicates the Limit of Credit. Assuming Credit to be, what it is in its best known form in this country, the Promise to pay money, it is quite clear that every future payment has

a *Present Value*. Consequently whenever the possession of Money at a future time is actually certain, the Right to receive it is an exchangeable Property, which may be bought and sold.

Commercial Credit, however, does not rest upon so solid a basis as the certainty of being in possession of Money, for then it would be as safe as Money itself, and losses would be unknown. It is based upon the expectation of receiving Money at a certain time. A trader buys goods, and gives his *Promise to pay* money, upon the reasonable expectation that he will be able to sell them for Money before the bill becomes due: or at least that he will be in possession of Money before that time. That is he *produces*, or brings and offers them for sale, in the hope that they will be *consumed* or bought. If he brings forward for sale more of any species of goods than is suitable to the circumstances of the time, so that they cannot be sold at all, or if they are obliged to be sold at a lower price than they cost, that is *over-production*. He must then pay his Bills out of any other means that he may possess, and if he has no other means he is ruined.

In times of great speculation, and great fluctuation of prices, there is an exceeding danger of *over-production* by means of Credit, especially by that abuse of it called Accommodation Paper, which we shall describe hereafter. A new channel of trade is opened perhaps, and the first to take advantage of it make great profits. Multitudes of others, hearing of these great profits, rush in, all dealing on Credit. The market is overstocked, and prices tumble down, and the Credit created to carry on these operations cannot be redeemed. Not only are the speculators ruined, but also frequently the Banks which created Credit by discounting these bills.

The institution of Banks and Bankers who create Currency by means of their Credit, either in the form of Notes, or Deposits, gives a great extension to the Limits of Credit. But, nevertheless the *Principle* of the Limit remains the same. The increased quantity of Currency they can issue by means of their Credit, enables them to lower the Rate of Discount. These Bank Credits take the place of Money, and serve the purposes of Money, for all internal transactions. When a banker has created these Credits, or Debts, by buying Commercial Debts,

those who are indebted to the banker must obtain a sufficiency of Money, or of other bankers' notes, or of the Banker's own Notes, or Credit, to discharge their Debt. If this be done the Credit has been sound: payment in all these forms being absolutely equivalent. Hence we see that Credit is never excessive, no matter what its absolute quantity is, so long as it always returns into itself.

On the Extinction *of* Credit *or* Debts.

26. We have now to consider the various methods by which Credit, or Debt, is extinguished. Credit being the Right to something to be paid or done, of course the Payment or the Performance of the thing promised extinguishes the Credit, or Debt. Commercial Credit in this country is always expressed to be payable in money: and it is often supposed that Bills of Exchange are always paid in money. But there are several methods by which Credit is extinguished besides payment in money. And in this country the quantity of Bills of Exchange which are paid in money is infinitesimal compared to those paid in other ways. We have now to examine the various methods of extinguishing Obligations: these are—

1. By Release, or *Acceptilation.*
2. By Payment in Money.
3. By Renewal, Transfer, or *Novation.*
4. By Set off, or *Compensation.*

On Release *or* Acceptilation.

27. Euler, as have seen above, says that if a man has nothing in the world and even owes 50 crowns it is certain that he has 50 crowns *less* than nothing. He also says that if any one makes the Debtor a present of 50 crowns to pay his Debt, he would still be only at the point 0, though really 50 crowns richer than before.

Euler is right so far; but as we observed he has only stated half the case: because the same result may be attained in another way.

Suppose his Creditor *Releases* him from his Debt, his Property would then = 0, and he would also be 50 crowns richer than before.

Hence this example shews that the *Release of a Debt* is exactly the same thing as a *Gift of Money*. A principle of great importance in commerce.

So it is said in the Digest—"He gives a profit to another who frees him from an obligation: he who is freed is made richer, although nothing is truly added to him: yet he is richer in this that nothing is taken away from him."

And also—"He who is freed from an obligation seems to have gained something."

So Pothier says—"A Release is a Donation."

So also Ortolan—"The Release from a Debt is always classed as a Donation in Roman Law."

So Von Savigny—"A simple contract or the Release of a Debt may be the subject of a Donation."

"The increase of Wealth may result from a Credit given to the Debtor, or the Release of a Debt."

"Every Release of a Debt enriches the Debtor. The amount of the Donation is always equal to that of the Debt, even though the Debtor is insolvent. Although the Release from a Debt destined never to be paid seems a thing of no consequence, the augmentation of Property does not the less exist. In effect not only does Property represent a quantity always indeterminate, but its total Value also can either be Positive, or Negative, [Negative Property is a Negative Right i.e. a DUTY or DEBT]. If, then, Property is reduced to a Negative Value, the diminution of *minus* is, in Law, a change identical with the increase of *plus* for a Positive Value."

"The Release of a Debt always constitutes a Gift equal to the amount of the Debt, even though the Debtor is insolvent."

This vesting of the *Right to demand* and the *Duty to pay* in the same person was called *Confusio* in Roman Law.

How *Confusio* extinguishes a Debt has given rise to much subtle speculation, and for centuries has puzzled Divines and Jurists. For the Divines alleged that a Right once created cannot be destroyed; and the Jurists said that the Right being trans-

ferred to the Debtor, he cannot sue himself, and, therefore, the Debt is extinguished.

This explanation, however, is not satisfactory, because in many cases a man can sue himself. He may fulfil two characters; and in one character he may sue himself in another character. And moreover, this would shew only that the Right was in abeyance not that it was extinguished. And Jurists have shewn that there are cases in which the Right and the Duty have afterwards separated, although they have vested in the same person. The considerations however we have presented will give a complete solution of the case.

The Release of a Debt may take effect in two ways: either as the Creditor agreeing to destroy his Right; in which case the Duty is destroyed with it: or else as the Gift or Transfer of his Right by the Creditor to the Debtor. The practical result, of course, is the same either way, and the operations may be exhibited thus.

Of course Creating and Destroying being Inverse Operations may be represented by + and —. Hence to Create a Debt may be denoted by + (— £50).

Debts are always created by an exchange. Suppose that a man incurs a Debt of £50, by borrowing £50. As it is a *Mutuum*, the £50 become his Property; but at the very same time is created the Duty to pay them: consequently his Property will be represented thus—£50 + (— £50), or £50 — £50, *i.e.* he possesses £50, but also coupled with the Duty to pay £50. Suppose he wastes or spends the £50: he will then be in Debt £50, or his Property will be — £50.

Now if to Create a Debt be denoted by + (— £50) then of course to *Destroy* or *Cancel* a Debt will be denoted by — (— £50).

But — (— £50) = + £50.

Which shews that to Cancel a Debt is exactly the same thing as to make a Gift of so much money.

If therefore the Creditor releases or cancels the Debt of £50, then the Debtor's Property is — (— £50) or + £50. That is he is now £50 richer than he was before, though his Property is now = 0.

Let us now take it the other way. The Credit or Right of action, being a Chattel, Goods, or a Commodity, may be the subject of a Donation, or Gift, exactly like any other Chattel, or Goods, or Commodity. The Creditor may present his Right of Action, +£50, as a Donation to his Debtor as well as to any one else. Then the Debtor's Property will be −£50 + £50.

These two Quantities cancel each other exactly like $+a$ and $-a$ on the same side of an equation, and they vanish together. The Right is not in abeyance, it is absolutely extinguished: and the +£50 ceases to exist as an Economic Quantity as well as the −£50, or the Debt: and thus the Obligation is absolutely extinguished.

But it is only in the case in which the person has the Right to demand from *himself* as well as the Duty to pay to *himself*, that the Contract is extinguished. Because a man's Property may be represented by −£50 + £50, and therefore, for practical purposes, only = 0, and yet these two Quantities will not extinguish or cancel each other.

Suppose a person owes A £50, and at the same time holds £50 of a banker's Notes. In such a case his Property is £50 − £50, and in substance = 0: but in this case the +£50 and −£50 do not cancel each other, and the +£50 is not extinguished as an Economic Quantity. For he may pay them away in commerce.

Suppose a Banker A holds £100 of another banker B's Notes: and B also holds £100 of A's Notes. Then the Property of each banker is +£100 −£100: but in such a case the +£100 and the −£100 do not cancel each other: and though it may be said that the Property of each banker, so far as these Notes are concerned is = 0, yet there are in existence £200 of Economic Quantities.

Hence it must be carefully observed that it is *only* when the Right and Duty emanate from the same source, and when they are again revested in the same source from which they emanated, that they are extinguished and cancelled as Economic Quantities.

We will only mention another case in which the Release of a Debt is equivalent to a Payment in Money. Suppose a Bank issues Notes which circulate among the public. Suppose the Bank proposes to increase its Capital, and invites subscriptions.

Then if the holders of its Notes wish to subscribe, they may pay the Bank's own Notes to it as their subscription. That is they Release the Bank from its Debt to them: and this is increase of Capital to the Bank.

Or if a customer of the Bank wishes to subscribe he simply gives the Bank a Cheque on his account: that is he Releases the Bank from its Debt to him: and that is increase of Capital to the Bank, exactly as the payment of so much Money. As the Digest says—"Release has the same effect as Payment."

On Payment *in* Money.

28. The preceding considerations will easily explain how a Debt is extinguished by a Payment in Money: which very few persons have ever thought of.

Suppose a person possesses £100, but owes £50: then his Property will be represented by £100 − £50.

His Creditor's Right to demand will be represented by + £50.

When the Creditor demands payment of the Debt, an exchange takes place. The Creditor transfers to the Debtor his Right to demand + £50, and the Debtor gives the Creditor £50 in money.

The Debtor's Property is then £50 − £50 + £50: or £50 in Money, together with the Right to demand £50 from himself and the Duty to pay £50 to himself. These two Quantities cancel and extinguish each other as before: the Right to demand, + £50, is now extinguished as an Economic Quantity, and the Debtor's Property is now £50.

The transaction is, therefore, shewn to be a Sale or an Exchange.

Thus as the Obligation, or Contract, was originally created by the Loan, or Sale, of the Mutuum, it is annihilated by the Sale or Exchange called Payment. Hence the Obligation was created by one Exchange, and is annihilated by another.

On Renewal *or* Transfer, *or* Novation.

29. The term *Novation*, in Roman Law was applied to substituting a new Obligation for the former one. But this took place in two ways—

1. When the Debtor himself gave a new Obligation, which the Creditor accepted in lieu of the former one, which was thereby cancelled. This is called by us *Renewal*.

2. When the Debtor transferred to the Creditor an Obligation, or Debt, or Credit, which was due to him from some one else: if the Creditor agreed to receive this, he thereby discharged his own Debtor, and agreed to take the Debtor's Debtor as his Debtor: and then his Debtor was discharged—unless he retained his Right against him as a surety.

A familiar instance of this is where a person pays his Creditor by giving him a banker's Notes. If the Creditor consents to receive them, his Debtor is discharged, and the banker is now the Debtor to the new Creditor.

Or suppose that a Debtor and his Creditor are both customers of the same bank. The Debtor gives his Creditor a Cheque on his account. The banker transfers the Credit from one account to another. That is a *Novatio*. The banker is freed from his Debt to the Transferor, and becomes Debtor to the Transferee, and the Transferor is freed from his Debt to the Transferee.

When the Debtor expressly consented to the transfer of the Debt, it was called a *Delegatio*, and the Debtor was said to be *Delegatus*.

The *Novatio* was also called *Transfusio*.

The *Novatio* was the same thing as a Payment in Money.

As is said in the Digest—"The term Payment includes not only Payment in Money, but also the Transfer of a Credit."

This kind of *Novatio* is also termed an "Exchange" in commerce, when effected by persons living in different places. A person living in one place may be Debtor to one person living in another place and Creditor to another person living in the same place. If these Debts were to be settled by Payments in Money,

it is evident that it would require two transmissions at considerable expense. The matter may evidently be settled by the Creditor living in the first place giving his Creditor living in the other place an order upon his Debtor living in the same place. It is exactly the same thing in principle as a person paying a Debt by giving his Creditor a Cheque on his banker. The mass of reciprocal transactions of this nature which takes place between different countries is called the Foreign Exchanges, a subject we shall have to investigate fully in a future chapter.

On Set-off, *or* Compensation.

30. If two persons are mutually indebted, each may claim that the Debt he has against the other shall be taken in payment of the Debt he has to pay. If the mutual Debts are equal, each is payment of the other, and the parties are released by Set Off or *Compensation*. If one Debt is greater than the other, a payment in Money of the balance only is necessary.

We will now give a few examples of the operation of *Compensation* in the modern system of Credit.

Suppose that two bankers issue Notes, and each banker gets possession of an equal quantity of the other's Notes. Then of course each has a Right of Action, +£100, say, against the other, on the other's Notes, and each has a Duty to pay, −£100, his own Notes. While the Notes of each are in the hands of the other, there are of course £200 of Rights of Action, or Credit, or Debts, or Economic Quantities in existence. But when they meet to adjust the payment, each transfers to the other the Right of Action he has against him, in satisfaction and payment of the Debt due from himself. By this means each has the Right of Action against himself, and the Duty to pay himself. And thus as we have seen already both Contracts, or Obligations, are extinguished; and the £200 cease to exist as Economic Quantities.

So as another example, we may take the case of a banker discounting a merchant's Acceptance, and issuing Notes. Suppose that when the merchant's Acceptance falls due he has got

into his possession an equal amount of the banker's Notes. When the banker demands payment of the merchant's Acceptance, the merchant tenders him an equal amount of his own Notes. Each, then, has now got the Right of Action and the Duty to pay himself, vested in himself: and consequently the two Contracts or Obligations are annihilated.

Or suppose that two merchants have given Acceptances to an equal amount, and payable on the same day, and that each Acceptance falls into the hands of the other merchant. Then on the day of payment each tenders to the other his own Acceptance in payment of the Debt due from himself. Each has then the Right to demand from himself and the Duty to pay himself, vested in himself: these two Quantities cancel each other as before, and the two Contracts or Obligations are extinguished.

Or suppose that a banker discounts the Acceptance of one of his customers: on the day it falls due he simply writes off from his customer's account the amount of his Acceptance. Thus these two Debts mutually cancel each other as before.

The earliest instance of which we are aware of the Theory of Compensation being carried out on a great scale is mentioned by Boisguillebert, the morning star of modern Economic science. Pointing out the true nature and use of Money he shews how Credit supplies its place, and (describes the fairs at Lyons where the merchants used to balance their Debts.) The merchants instead of making their bills payable every three months or so, by which they would have had to keep a large stock of bullion unemployed ready to meet them, made them payable only at the fair of Lyons. The bills circulated throughout the country, and got perhaps covered with indorsements. At a certain period during the fair the merchants met for a general settlement of accounts: and Boisguillebert says that by this means transactions to the amount of 80 millions were settled by simple Compensation, without requiring a sou in money.

Thus we see what a prodigious extension of the system of Credit, the means of extinguishing Credit by other methods than payment in money gives. And having explained how Credit is created, exchanged or sold, and extinguished, we shall in the

two following chapters exhibit the mechanism of the great System of Credit.

The System of Credit is divided into two great branches, Commercial Credit and Banking Credit. In the first, merchants buy commodities by means of Credit, payable at a certain time after date. The second is where bankers buy these Commercial Debts, or Credits, by creating Credits of their own payable on demand. Commercial Credit is always created terminable at a fixed time, and is always intended to be extinguished at that time. Banking Credit is usually created payable on demand, and must be capable of being paid, if demanded. But it is not *intended* to be extinguished: on the contrary it is created with the hope and expectation that it will not be extinguished, but that it will continue in existence and do duty as Money. There is no necessity that it ever should be extinguished. It may be transferred from one account to another in the same bank, and from one bank to another to the end of time. It is perfectly possible that much of the Banking Credit which exists at the present day, may have been originally created by the very first banks founded in this country, and there is no necessary reason why it should not continue to the end of time. Money is a very expensive machine to purchase and keep up: but Banking Credits cost nothing to create, and they may be absolutely indestructible.

CHAPTER V.

ON COMMERCIAL CREDIT.

1. Goods or commodities in the ordinary course of business pass through the following hands—1st the foreign importer: 2dly the wholesale dealer: 3dly the retail dealer: 4thly the customer or consumer. To the first three of these persons these goods are Capital; because they import, manufacture, or buy them for the purpose of selling them again with a profit: the fourth buys them for the sake of use or enjoyment. The price the ultimate consumer pays for them, must evidently be sufficient to reimburse the original expense of production, together with the profits of the three succeeding operations.

Now leaving out of the question at present how the importer of the goods gains possession of them, which concerns the foreign trade of the country, which we do not touch upon here—if he sells the goods to the wholesale dealer for ready money, he can of course immediately import or produce a further supply of goods in the room of those he has disposed of. In a similar way the wholesale dealer sells to the retail dealer, and if he were paid in ready money, he might immediately effect further purchases from the merchant to supply the place of the goods he had sold. So also if the retail dealer were always paid in ready money by his customer he might replace the part of his stock that was sold: and so if everybody had always ready money at command, the stream of Circulation or Production, might go on uninterruptedly as fast as Consumption or Demand, might allow.

This however is not the case. Few or no persons have always ready money at command for what they require. Very few traders can commence with enough ready money to pay for

all their purchases; and if the stream of circulation or production were to stop until the consumer had paid for the goods in money, it would be vastly diminished.

Now let us suppose that the merchant, having confidence in the character of the wholesale dealer, agrees to sell the goods to him, but not to demand the money for them till some time afterwards. He accordingly parts with the Property in the goods to the wholesale dealer, exactly as if he had been paid in money, and receives in return the *Right to demand* payment at some time after date. Now the very same circulation of goods has taken place as would have been caused by Money. The only difference is that the actual payment is postponed, and for this the merchant charges a certain price. This Debt may be recorded in two ways: it may be simply recorded in the merchant's books, or else in a Bill of Exchange. But it is quite clear that the Property is absolutely the same in whichever form it is, though one form may have more conveniences than the other.

In a similar manner the wholesale dealer may sell for Credit to the retail dealer, and this Debt may be recorded in two forms, like the first, either as a Book-debt, or in a Bill of Exchange. As in the former case, the same Circulation, or Production has been caused by Credit as by Money. Lastly the retail dealer may sell to his customer on Credit, and this Debt may also be recorded in two forms, either as a Book-debt, or as a Bill of Exchange. (In this latter case the Debt is very seldom embodied in a Bill of Exchange: it most frequently rests as a Book-debt.) But in this case as well as in the former ones, Credit has had precisely the same effect as Money in circulating the goods. Hence we see that Credit has had precisely the same effect as Money in circulating the goods from the merchant to the consumer. Moreover we see that the passage of the goods through these various hands has generated a Debt at each transfer. Supposing the merchant sold the goods for a Debt of £100 to the wholesale dealer, the wholesale dealer would probably sell them for a Debt of £140 to the retail dealer, and the retail dealer would sell them to different customers for Debts not less probably in the whole than £200. Hence we see that the successive transfers of the same goods have generated Debts

to the amount of £440: thereby exemplifying the distinction we have already pointed out between Credit and Bills of Lading: because if the goods had passed through twenty hands, the same Bill of Lading would always have accompanied them.

2. Now the Debt for which the merchant sold the goods to the wholesale dealer is no doubt valuable Property to him, because he knows that it will be paid in due time. It may moreover be exchanged for anything else, like any other property, if any one will take it. But it is of no immediate use for what the merchant or manufacturer probably wants at the time, namely, Money to buy more goods, or to pay wages &c. (Moreover though he may be quite satisfied as to the safety of the Debt, from his knowledge of his customer, it does not follow that others who don't know him will. Consequently such a Debt would not be well adapted for general circulation, and therefore it would be of no use towards further Production.) In a similar way the Debt for which the wholesale dealer sold the goods to the retail dealer, would not be well adapted for general circulation and therefore could not conduce further to Production. The Debts due by customers to retail dealers seldom do conduce to further production, because they are most frequently merely in the form of Book debts.

Now the merchant would probably sell to a great number of wholesale dealers whose Debts would fall due at different times, and therefore a certain stream of money would always be coming in to enable him to continue Production. Similarly the wholesale dealer would sell to a great variety of retail dealers whose Debts would fall due at various periods, and so a certain stream of money would always be coming in to enable him to continue Production. Similarly the retail dealer sells to a great variety of customers, a great many of whom pay him ready money at the time of the purchase, as casual buyers, and his customers too pay him money, by which he can continue to make purchases and keep up the stream of Production. And therefore this would greatly facilitate Circulation or Production.

Credit so far even as this would be of great assistance to Production, and the vast amount of it generated in this manner would be valuable Property to its owners. But it is manifest

that it would be of no further immediate use to them. It might therefore be aptly compared to so much dead stock. The next grand improvement would be to make this dead stock negotiable, or exchangeable. The next great step is to make the Debts themselves saleable commodities: to sell them either for ready money, or for other Debts of more convenient amount, and immediately exchangeable for Money on demand, and therefore equivalent to Money.

3. There are two classes of traders whose especial business is to buy these commercial Debts, and so to give activity and circulation to this enormous mass of valuable property, and to convert it from dead stock into further Productive power. The first class of these traders are called BILL DISCOUNTERS i.e. *buyers of Debts*; they buy these Debts with money. The second class are called BANKERS; and they buy these commercial Debts, by creating other Debts payable on demand.

(Banks, then, as far as regards our present subject, are shops opened for the purpose of buying these commercial Debts.) The merchant draws a bill upon the wholesale dealer, who accepts it, and thus becomes the principal debtor on the bill. The merchant then takes the bill for sale, or discount, as it is technically termed, to his banker. It is usual to make bills payable to the drawer, or his order, which is signified by his writing his name on the back of the bill. The merchant therefore writes his name on the back of the bill, and sells it to the banker, and this operation is termed INDORSING the bill. But the indorsement has another effect besides merely assigning over the Debt to the banker, for unless specially guarded against, it makes him a surety for the payment of the bill, in case the acceptor does not pay it. (The effect therefore of the Indorsement, is a SALE of the Debt, with a warranty of its soundness.) But this warranty is not an absolute one, but only a limited one, as has been explained above. The banker, therefore, buys this Debt with a limited warranty of soundness by creating another Credit, by writing down the amount to the credit of his account, which Credit is called a DEPOSIT; at the same time charging him with the discount, and gives the merchant power to draw upon him at pleasure and at demand. Thus we see that the Banker has

bought one Debt, which is valuable Property, by creating another Debt, which is also valuable Property, and is equivalent to ready money to the merchant. And it must be observed that this is not a cancelment of Debts, as many suppose, but an *exchange* of valuable Properties.

4. The merchant has, however, a great many similar Debts, because he has sold to a great many wholesale dealers, and he will probably want to sell these in a similar way to his banker. The merchant will therefore indorse each of them over to his banker, thereby making each of the acceptors the principal debtor to the banker, but at the same time becoming himself responsible if any of them fail to pay his Debt. If therefore the banker discounts the bills of 20 acceptors, he will have 20 principal debtors, who are each of them bound under the penalty of commercial ruin, to pay their debts when they are due. (The merchant however, is surety for each of them, and as it may happen that out of so many, some may make default, the banker usually stipulates that the merchant shall leave a certain amount of Deposit on his account by way of additional security.) If any acceptor then makes default the banker immediately debits the account of the customer with the amount, and gives him back the bill. Thus to a certain extent the banker always keeps the means of paying himself in his own hands, besides having his customer's name on the bill, which makes his whole estate liable; and even should his customer fail, he retains the right to have his Debt paid out of the estates of both the principal and surety.

The wholesale dealer has given his acceptance for the goods, and he sells them to the retail dealer and takes his acceptance for them. In a similar manner he wishes to sell this Debt to his banker, and so convert it into Productive Capital. A similar transaction takes place as in the former case. The wholesale dealer sells the Debt of the retail dealer and becomes himself surety for its payment to his banker. The banker also buys this Debt by creating another Debt payable on demand, which is equivalent to ready money.

The retail dealer may also draw upon his customers, though this is comparatively rare, because customers are generally beyond the pale of commercial law.

By these means we see that the dead stock of commercial Debts is converted into Productive Capital. The merchant and the wholesale dealer have now the full command of ready money for any purchases they require, and can continue the stream of production without interruption, and as their bills fall due, all they have to do is to give an order on their banker.

5. These are the fewest number of hands that goods in the ordinary course of business pass through, and it is clear that in their passage from the manufacturer to the customer they will give rise to at least two bills, sometimes to three. They are all regular business bills, they originate from real transactions, and they are what are called Real or Value Bills, and they are what arise out of the regular and legitimate course of business, and are the great staple of what bankers purchase. (It is a very prevalent belief among commercial men, that business bills are essentially safe, because they are based upon real transactions and always represent property.) But the foregoing considerations will dispel at once a considerable amount of the security supposed to reside in commercial bills on that account, because we have seen that in the legitimate course of business, there will generally be two bills afloat, originating out of the transfers of any given amount of property, so that in the ordinary way there will be twice as many bills afloat as there is property to which they refer.

6. We must refer to the next chapter for an exposition of the mechanism of banking, shewing how the creation and exchange of Debts is made in modern commerce to perform the part of money. (We will only observe here, that the manufacturer, the wholesale dealer, and the retail dealer, may all be customers of the same bank, and if they all have their bills discounted by it, it will purchase a whole series of Debts arising out of the transfers of the same property.)

The above operations are only what arise in the ordinary course of business; it may sometimes happen that property may change hands much more frequently, and at every transfer a bill may be created. Hence when the Credits are very long, and the transfers numerous, it is easy to imagine any number of bills being created by repeated transfers of the same property. In times of speculation this is particularly the case.

Now all these bills are technically Commercial or Real Bills, but it is evidently a delusion to suppose that there is any security in them on that account. The fact is that the whole misconception arises from an error in the meaning of the word "represent." A Bill of Lading does, as we have said above, *represent* Property, and whoever has the Bill of Lading, actually has so much property. But a Bill of Exchange does not *represent* goods at all. It represents nothing but *Debt*; not even any specific money. It is created as a substitute for Money, to transfer Property, but it does not represent it any more than Money represents it. This was long ago pointed out by Mr. Thornton in his *Essay on Paper Credit*—"In order to justify the supposition that a real bill, as it is called, represents actual property, there ought to be some power in the bill-holder to prevent the property which the bill represents from being turned to other purposes than that of paying the bill in question. No such power exists; neither the man who holds the bill, nor the man who discounted it, has any property in the specific goods for which it was given." This is perfectly manifest. It is both contrary to the law and the nature of Bills that they should be tied down to any specific goods. And it shows that the real security of the bill consists in the general ability of the parties to it to meet their engagements, and not in any specific goods it is supposed to represent, the value of which is vague or illusory, and impossible to be ascertained by any one who holds it or discounts it.

7. The distinction between Bills of Lading and Bills of Exchange is of so subtle a nature, but is of such momentous consequence, that we may illustrate it further. The preceding sections shew that any given amount of property may, by repeated transfers, give rise to any amount of bills, which are all *bonâ fide*, just for the same reason that every transfer would require a quantity of Money equal to the Property itself to transfer it. Then, even supposing the price remained the same at each transfer, it would require twenty times £20 to circulate property to the value of £20 twenty times. But also £20 by twenty transfers may circulate property to the value of twenty times £20. So also a Bill of Exchange may represent the

transfers of many times the amount of property expressed on the face of it. This is the case whenever a Bill is indorsed or passed away for value: and the bill represents as many additional values expressed on the face of it as there are indorsements. Thus let us suppose a real transaction between A and B. A draws upon B. That shews that the bill has effected *one* transfer of property. A then buys something from C. It is clear that C might draw upon A, in a similar way that A drew upon B. But instead of that A may transfer the bill on B, by indorsement. It has now effected *two* transfers of property. In a similar way C may buy from D, and in payment of the property may indorse over the bill to D. The bill then represents *three* transfers of property. In a similar way it may pass through an unlimited number of hands, and will denote as many transfers of property. When C indorsed over the bill to D, he merely sold him the debt which A had previously sold to him. Now that might be done either by drawing a fresh bill on B, cancelling the first, or simply indorsing over the bill he received from A. Hence we see that every indorsement is equivalent to a fresh drawing. But if he draws a fresh bill on B, it will represent nothing but B's debt to him; whereas if he indorses over the bill he received, it will represent B's debt to A, A's debt to C, and C's debt to D, and consequently it will be much more desirable for D to receive a bill which represents the sum of so many previous transactions, and for the payment of which so many parties are bound to the whole extent of their estates.

Some sixty years ago, almost the entire circulating medium of Lancashire consisted of Bills of Exchange, and they sometimes had as many as 150 indorsements upon them before they came to maturity. From this also, we see that no true estimate can be formed of the effect of the Bills of Exchange in circulation, by the returns from the Stamp Office, as has sometimes been attempted to be done, as every fresh indorsement is in effect a new bill. So that the useful effect of a Bill of Exchange is indicated by the number of indorsements upon it, supposing that every transfer is accompanied by an indorsement, which is not always the case. We see here the fundamental difference

between Bills of Lading and Bills of Exchange, because the indorsements on the former denote the number of transfers of the *same* property: the indorsements on the latter denote the number of transfers of *different* property. Ten indorsements on a Bill of Lading shew that the same property has been transferred *ten* times, but ten indorsements on a Bill of Exchange shew that *eleven* times the amount of property has been transferred once.

8. We have shewn that the prices of all commodities are universally governed by the Law of Supply and Demand at all times. If the supply be excessive, nothing can prevent the price from falling to any state of depression, until it becomes absolutely unsaleable. The commodity, therefore, will not pay the cost of its production, and unless those concerned in producing it have independent capital to enable them to hold on until the excessive supply is taken off, and save them from selling when the price is ruinously depressed, or to stand the losses, they will all fail.

Almost all men in commerce are under Obligations: that is they accept Bills of Exchange which must be paid at a fixed time, under the penalty of commercial ruin. To meet these Obligations due by them, they have property of two sorts—Debts or Obligations due to them; and secondly Commodities. To meet their own Obligations, they must sell one or other of these kinds of Property. They must either sell their Debts to their banker, or they must sell their Commodities in the market. While Credit is good—that is while bankers buy Debts freely—they can retain their Commodities from the market, and watch their own opportunity of selling at a favourable moment. As their own Obligation falls due, they sell to their bankers some of the Debts due to them. Thus if Credit was always good, they might go on for ever, without the necessity of ever having a single piece of money paid into their account, or having any money at all beyond what is necessary for their daily petty transactions. But if Credit receives a check, and the banker refuses to buy their Debts, they must still meet their own Obligations under penalty of ruin. They are consequently obliged to throw their Commodities on the market, and sell them at all hazards: the supply of them becomes

excessive and inevitably depresses the price. Traders who have Capital enough of their own to meet their engagements without discounting, are able to keep their Commodities back from the market until, the extra supply being exhausted, prices rise again, from the natural operation of the demand. Bankers, we have shewn, always buy the Debts of traders by creating Debts of their own, which are called their "Issues," and when bankers refuse to buy the Debts of traders they are said to "contract their Issues." Consequently a contraction of "Issues," or of discounts, is generally followed by a fall of prices. And this fall in prices happening coincidentally with a contraction of Issues, is frequently supposed to be caused directly by the diminished amount of Currency compared to Commodities, which is to a great extent erroneous, because it is in reality caused by the extra quantity of Commodities, which a refusal to discount Debts causes to be thrown upon the market.

9. We see then how utterly impossible it is to ascertain the precise effect of the contraction of Issues of banks upon prices, because the change is principally produced by the quantity of produce which traders are compelled to sell to meet their engagements, when the negotiability of their Debts receives a check; and, of course, similar circumstances not only compel traders to sell, but prevent others from buying. Consequently the supply is greatly increased, and the demand greatly diminished. (If however the holders of one commodity are possessed of much independent capital, and are not compelled to realise to meet their engagements, a contraction of issues would not affect them much.) On the other hand, if the holders of another commodity were in general men who depended chiefly on Credit, and were compelled to sell at a sacrifice to meet their engagements, a sudden refusal to discount for them would cause an extraordinary quantity of their produce to be thrown on the market, and cause a ruinous depression of price.

It is the sudden failure of confidence and extinction of Credit which produces what is called in commercial language a "pressure on the money market," and which causes money to be "tight." When money is said to be scarce, it does not mean that there is a smaller quantity of money actually in

existence than before: there may be more, or there may be less in the country: no one can tell what the amount of money in existence is: but a great amount of CREDIT which serves as a substitute, and was an equivalent for Money, is either destroyed altogether, or is suddenly struck with paralysis, as it were, and deprived of its negotiable power, and, therefore, practically useless. A vast amount of Property is expelled from circulation, and Money is suddenly called upon to fill the void. When a new field of commercial adventure is found by sagacious discoverers, or a new market is suddenly thrown open by a change in the commercial policy of foreign nations the first adventurers usually reap enormous profits. As soon as this becomes known a multitude of other speculators rush into the same field, excited by the profits reaped by the first. Numbers of merchants and traders purchase commodities on Credit, that is they incur Obligations which they must discharge at a future day, in the hope that the returns will come in before the day of payment. But the immense quantity of goods poured in usually gluts the market in a short time, and, from the excess of supply prices tumble down often to nothing, so that the goods become unsaleable and either no returns at all come in, or such as are quite inadequate to meet the outlay. When this occurs it is called *over-trading*, and when this has been extensively practised, it is necessarily and inevitably followed by a great destruction of Credit, and a great demand for Cash. Thus Credit is destroyed faster than operations can be reduced in proportion. Those traders who have not received the returns they counted upon to meet their engagements, must raise money on any terms, and perhaps sell what property they have, at any sacrifice, to save themselves from ruin. The effect of this will be that Money, for which there is an intense demand, will rise greatly in value, that is discount will rise very high. But as a necessary consequence of such a state of things, a great quantity of goods will be thrown on the market, and their price will be enormously depressed. These circumstances will therefore produce a very high rate of discount, and ruinously low prices, which will continue until the excessive supply of goods is exhausted and confidence revives. In such cases as these,

traders who have not sufficient Capital of their own to meet their engagements, and hold on their goods until prices rise, will infallibly be ruined. (Under these circumstances the Rate of Discount bears no relation to the Rate of Profit.) The use of ready money to persons who have over-traded, is of infinitely more consequence than the price they have to pay for it. It may be well worth their while to pay 15, or 20, or even 50 per cent. for the use of money for a temporary emergency, which may save them from ruin, and enable them to maintain their position.

It is therefore not the scarcity of money, but the extinction of confidence, which produces a pressure on the money market; and an examination of all the great commercial crises in this country, will shew that they have always been preceded and produced by a destruction of Credit, which has usually been brought about by extravagant overtrading.

10. The principle that the relation between supply and demand is the sole regulator of value, combined with the action of the Credit system, will explain all the phenomena witnessed during a pressure on the money market. (The failure of Credit in any one branch of business will produce its full effect on the general market rate of interest, because that is regulated by the intensity of the demand for money from whatever quarter it comes: but it will not necessarily follow that the market prices of all commodities will be depressed.) The market price for each commodity will be governed entirely by its own peculiar circumstances. If the holders of one commodity have independent capital, and have prudently abstained from overtrading, the price of such a commodity will not suffer much, because the ratio of supply and demand will not be altered to any great extent, but it cannot help sympathising to a certain extent with other commodities. But if the holders of another species of commodity have overtraded, and depended too much on credit, without sufficient means they will necessarily be obliged to throw a great quantity of their produce on the market to realise, and this excessive supply will depress the price. And this effect will be increased because such are the very times when persons who have ready money are particularly cautious in buying, partly le-

cause they always hope the market will fall still lower, and they hope to buy cheaper when prices have fallen to a minimum, and they certainly will not buy more of any commodity than they can help, which is diminishing in value: and partly because they must keep their ready money to maintain their own position. From these causes not only is the supply increased, but the demand is diminished, so that the fall is doubly aggravated. Thus we see at once that a falling market will always be well supplied, because people who must sell hasten to do so before the price falls still lower: and buyers hold aloof, waiting as long as they can to see the lowest. On the other hand, when markets are rising, the case is reversed. The sellers hold aloof, hoping the price will be still higher, and buyers crowd in hastening to purchase before the price rises more. A market which is desponding and inactive will usually continue so until people are persuaded that things are at the lowest, and are at the turn. It is evident that these considerations and observations apply to home produce, or at least to produce which is already in this country, and which can be thrown on the market immediately. In order to attract foreign produce, the market must rise high for a considerable time, with the appearance of continuing so.

11. Considering that any bill whatever which is drawn against *bonâ fide* produce is in commerce technically a Real bill, it will be seen at once that their supposed security is greatly exaggerated, because any operation, however foolish and absurd, is a good basis for a Real bill. In times of rapid changes in price, multitudes of bills will be generated by speculative purchasers, and when the price falls as rapidly as it rose, as it usually does, it is simply *occupat extremum scabies*. Hence losses, and very severe ones too, are sure to happen in such times. But there is always this security at least with Real bills. When persons have speculated unluckily and lost their fortunes they are brought to a standstill. When a man has ruined himself by speculation, no banker out of Bedlam would advance him more money to speculate with. Hence ill-judged speculation must stop a man's mischievous career in a comparatively short space of time, that is whenever he has lost the value of the goods he has been speculating with. We shall find in the next chapter,

unfortunately, that traders have devised a method to extract funds from bankers to speculate with, by which they can go on long after they have lost all they ever had many times over, and adding loss to loss, until, perhaps, they may bring down their bankers, whom they duped and defrauded, as well as themselves. We have shewn in the next chapter, that there are symptoms which will often indicate a commercial crisis.

On Credit employed for the purpose of forming a NEW PRODUCT.

12. The operations on Credit, which we have hitherto been considering, were all based on an anterior operation, or one in which an exchange of commodities was effected by the creation and sale of the Credit, which Credit was afterwards sold or exchanged for another Credit. (Such Credit is therefore manifestly limited by operations which have been made, and by commercial exchanges.) The number of bills created could by no possibility exceed the number of transfers of commodities, although they might be greatly less, because, as we have seen, a single bill might be used to effect many transfers of property. In all these cases, a Debt has been created which was expected to be paid out of the proceeds of the sale of existing property.

But since Credit is, as we have shewn, exchangeable Property and a substitute for Money, it is clear that it may be applied as well as Money to bring *new* products into existence. The limits of it in this case will be exactly the same as those in the former case, namely, the power of the proceeds of the work to redeem the Credit.

As an example of such a creation or formation of a product we may take such a case as the following—Suppose the Corporation of a town wishes to build a market hall, but has not the ready cash to buy the materials, and pay the builder's and workmen's wages. It may be a matter of certainty, that if the market were once built, the stalls in it would be taken up immediately, and the rents received from them would liquidate the debt incurred in erecting it. But as the workmen cannot wait until

that period, but require immediate cash to purchase necessaries, it is clear that, unless there is some method of providing ready money they cannot be employed. In such a case, they might borrow money on their bonds repayable at a future time. Now here we observe that these bonds are the creation of Property. They are the Right to demand a future payment, and are valuable exchangeable property, which may be bought and sold like anything else. In this case we observe there is an exchange. But the Corporation need not borrow money. They might make their own Obligations payable at a future date. And if these were made small enough, and were readily received by the dealers in the town, they might be used in the payment of the workmen's wages, and perform all the functions of a Currency, and be equivalent to Money. Each of them is a new RIGHT *created*, and valuable Property which is exchangeable, and, therefore, WEALTH by the definition. They would be quite as efficacious in *producing*, or forming, the market hall as real Capital. And the market hall itself would be Capital, because it produces a profit. As the stalls were let and rent received for them, the bonds might be redeemed, and the Debt cleared off. It is said that many market places have been built by adopting such a plan. This case shews the utter futility of the notion that Credit cannot be applied to the formation of products, and here we see it was not based on any anterior operation.

13. This is an instance of the *creation* of a product by Credit, and not merely the transfer of an existing product. The result to the Corporation would be precisely the same, whether they accomplish their object by borrowing real Capital and paying interest for it, or by issuing bonds, bearing interest, payable at fixed periods. In the one case they would be liable to the full extent of their property to the persons from whom they had borrowed the money; in the other to those who held their bonds. If the operation was successful, its profits would in the first case pay the persons who had lent the money; in the second, the profits would pay the persons who held the notes, and extinguish the liability of the Corporation. If the operation were unsuccessful, the Corporation would equally have to make good the loss out of their general effects, either to the lenders of the money.

or to the holders of the notes. It would therefore be a matter of no consequence whatever to the Corporation which way they adopted to accomplish the work: but it would be a matter of importance to the town at large, because, if they borrowed real Capital to do it, that would by so much diminish the fund of moving power applicable to other species of industry, and raise its price. It is clear, therefore, that the second method would be so much clear addition to the Capital of the community, and would therefore be most advantageous for them.

This second method of utilising Credit, from not being based upon *real* Capital, is an instance of what is usually called *fictitious* Capital, a name of extreme inaccuracy, which too many persons are in the habit of using, from the hasty assumption that what is not *real* must necessarily be *fictitious*, and are more led away by a jingling antithesis of words than an accurate perception of ideas. If the bonds issued by the Corporation were not redeemable, and represented nothing, the epithet *fictitious* would be accurate. But such is far from being the case. In both cases it resolves itself into the PRESENT VALUE *of a future payment*. In the first instance, the Obligation incurred by the Corporation to the lenders of the money would not be limited to the Specific Capital they advanced, but would be a general charge on the whole property of the Corporation. The bonds issued in either case would be precisely the same; they would confer upon the holders of them a general charge upon all the property of the Corporation. The security to the holder of the Corporation's Obligations would be absolutely identical in either case. If the Corporation spend the money, it is absolutely gone away from them for ever, and is no more a security to the holders of their notes than if it had never existed. In either case, then, it is the permanent Property of the Corporation which is the real security of the holders of their notes: and they have the same general charge over it in both cases. It is, therefore, to the last degree inaccurate and untrue to distinguish one case by the term Real Capital, and to brand the other as fictitious. There is absolutely no distinction at all between the two cases, as far as regards the Corporation, and the holders of its Obligations; the profits and the losses are identical in their effects in either

case. The true difference is to the community at large, and the general fund of Capital available for its use, and its only effect is to make Capital somewhat cheaper than it would otherwise be: and a judicious and successful employment of it eminently conduces to the national prosperity.

The advantage of the second method is that it makes Capital more abundant, and sometimes might provide it when not otherwise obtainable. If it were scarce, or otherwise occupied, it might not always be possible to obtain it. If nobody had money to lend, the second method might supply the want, and so long as it is practised by judicious persons, and used in promoting successful operations it is a great blessing. But it is just on this very point that it is liable to the most dangerous abuse. If the Corporation were limited to the use of real Capital advanced by some independent person, he would probably take into consideration the purpose to which it was to be applied, as well as the solvency of the Corporation, and if he thought it injudicious, he would probably not advance it. There would therefore be so far a check upon them; but if they were totally destitute of control, and could embark in any operation, by simply writing a few "Promises to pay" upon bits of paper, they may be led away into wild and dangerous speculations, deceived by false expectations of profit, and involve themselves and all who trust them in ruinous losses. Because, though these Promises to pay did not represent real advances, and are therefore inaccurately called fictitious Capital, if they get into circulation, and people give value for them in commodities or services, a disastrous operation based upon them is just as much loss of Capital as if they had been real advances.

14. We have thus shewn that in the production of commodities, which term by the unanimous consent of all modern Economists includes both the formation and the *transfer* of commodities, Credit performs exactly the same functions as Money: So far therefore as production goes, Credit is in all respects equivalent to Money. And so long as the operations are successful, everything goes well: Money being as we have laid down the representative of the fruits of a man's past industry, and Credit a pledge of his future industry. It is certain that

"Credit" exceeds "Money" many times in this country, for whereas it is not supposed that the actual Money exceeds £80,000,000, the Credit in Bills of Exchange, which is only one form of it, taking a very low estimate exceeds £400,000,000: that is the people of this country have always pledged their future industry to the extent of four hundred millions of money. And this £400,000,000 is equally Capital, it is equally a Real Value as the £80,000,000. No doubt it is of a different description; it is more perilous, a portion of it may perish. But it is an undeniable fact that it has performed the same functions, so far as regards Production, as Money. It is a distinct and separate article of Value over and above commodities, totally different from Bills of Lading, which merely represent particular commodities. Bills of Exchange are not a lien upon Property, but upon *industry*, and any property a man possesses is only a kind of collateral security to make good his engagements in case his industry is unsuccessful.

15. In the case we examined of a bank discounting the bill of the manufacturer A, upon the dealer B, the transaction was already effected upon which it was founded. A had rendered the service to B, for which he was to be paid at a future day, *before* he drew the bill upon him, and originally all Bills of Exchange represented previously existing Debts, and they bore on the face of them the words "for value received" to testify the fact. Consequently when A discounts the bill founded upon that transaction, with the bank, it must be carefully observed that he is simply selling a Debt which is his existing property. And so long as Bills of Exchange are restricted to representing past transactions, their negotiation is not borrowing money, as is commonly understood. But the sharpness of traders discovered that they might be applied to future transactions.

In the case of a *past* transaction, the bill was given by B, who had got the goods, to A, who had given them, and A had got the money that would be payable to him at the maturity of the Bill, advanced to him by the bank on the credit of B's reputation, as well as his own. If B, however, be a person of wealth and reputation, he may lend the use of his name to A without any real transaction having taken place between them. Thus he may

accept a bill of A's, and A on the strength of his name, goes to his banker, and gets the money, with which he performs some operation, such as manufacturing goods, and, having done so, he may sell them to C, and take C's bill in payment of them, which latter is a real transaction. Now the whole of this operation is based upon the credit of B's name; it is not based upon anything real, or upon any service previously rendered: consequently it is in itself a completely new transaction. Such a bill between A and B is called an ACCOMMODATION BILL. This name is however not confined to cases where the acceptor lends his name for the accommodation of the drawer, though that is the most usual form, but wherever an acceptor, drawer, or indorser puts his name upon the bill, and therefore, renders himself liable to the holder for value to discharge it, without, as the legal expression is, consideration moving to him, it is an Accommodation Bill, and the party for whose accommodation it is negotiated is bound by law to provide funds to discharge it at maturity, and also to indemnify the accommodation acceptor, drawer, or indorser, as the case may be, against the consequences of non-payment.

The practical effect of this transaction is simply that B stands security to the bank for the money advanced to A; and there is nothing in the nature of such a transaction worse than for one man to stand security for another in any other commercial transaction. In some respects it is much fairer to the person who runs the risk as security, because in the ordinary course, when one person becomes security for another, he does not receive any pecuniary recompense for the risk he runs, to which he was most certainly fairly entitled: whereas if it be done by way of Accommodation Bill, he generally receives some *quid pro quo*, and when a bank performs an operation of exactly the same nature, it always receives a high interest for the risk it runs, and, when judiciously done, is a very profitable source of income. From the extravagant abuse, however, of such modes of raising Capital, Accommodation Bills have acquired a most discreditable reputation, and there is nothing which requires more vigilance in a bank than to guard against being entrapped into making unwary purchases of such securities.

A great deal has been said and written about the difference between Real and Accommodation Bills, and while no terms of admiration are too strong for the first, no terms of vituperation are too severe for the latter. Thus Mr. Bell says—"The difference between a genuine commercial bill and an accommodation one is something similar to the difference between a genuine coin, and a counterfeit;" as if the act of negotiating an Accommodation Bill were in itself an act of moral turpitude. It is also generally assumed that Real Bills possess some sort of additional security because it is supposed that there is property to represent them. We have already seen, however, the entire delusion of such an idea, and that it is a great mistake to suppose that Commercial Bills have any specific relation to the Property from the transfer of which they originally sprang. In truth, both Real and Accommodation Bills have precisely the same security—they constitute a general charge upon the whole estates of all the obligants upon them. The objections to Accommodation Bills, therefore, on that ground are perfectly futile.

The essential distinction between Real and Accommodation Bills is, that a Real Bill represents a *past*, and the other a *future* transaction. But even this is no ground for any preference of one over the other. A transaction which *has been* done may be just as wild, foolish, and absurd as the one that *has to be* done. The intention of engaging in any mercantile transaction is, that the result of it should repay all the outlay with a profit. There is no other test of its propriety but this, in a mercantile sense. Such things have been heard of in the mercantile world as consignments of skates to tropical countries. Now, a Bill drawn against such a shipment as this would pass muster, in technical language as a *Real* Bill, while one drawn to forward some other operation, however sound and judicious it might be, if it were not yet accomplished, would be an Accommodation Bill, and be branded as fictitious. Mr. Bell would call the former genuine coin, the latter counterfeit.

We see therefore that the common objections urged against Accommodation Bills are perfectly futile, and quite wide of the mark. Whether a Bill be a good and safe one, has no reference to whether it represents a *Past* or a *Future* transaction, but

whether it is a safe and judicious one itself, and the parties to it able to meet their liabilities. The whole Cash Credit system of Scotland, which has conduced so eminently to the prosperity of that country, is a system of Accommodation Paper, which is sufficient to disprove in the mind of any dispassionate person, that the system is in itself necessarily dangerous and pernicious, but is proof enough that, if it is judiciously managed, it may be of great advantage.

The true objection to Accommodation Paper is of a different nature. When the Credit system is carried on duly and properly, and within legitimate limits, it is the most ingenious method ever devised for promoting commerce, and where it has been cautiously used, has marvellously succeeded in so doing. But it is a very trite remark, that the best things when corrupted, become the worst. This is eminently true of Paper Credit. Universal experience proves that there is nothing so dangerous and pernicious as for individuals to have an undue facility for obtaining Credit. When Capital is to be had on too easy terms, it fosters to an extravagant extent, the fatal propensity for embarking in all sorts of wild speculations, and pushing trade far beyond the possibility of being remunerative.

The considerations we presented shewed the exaggerated ideas of the security of Real Bills. But there is at least this security in Real Bills, that as they only arise out of real transfers of Property, their number must be limited in the very nature of things. However bad or worthless they may be individually, they cannot be multiplied beyond a certain extent. There is therefore a limit to the calamities they cause. But with Accommodation Paper there is no limit. A beggar may write upon bits of paper a million "Promises to pay" as easily as a Rothschild: and it is far more probable that he will do so; a man without a farthing is proverbially the most reckless, because when the bubble bursts, it is a matter of no consequence to him; he has nothing to lose: the misery and the ruin fall upon his unfortunate dupes. A man of real Capital will be cautious in his operations. A loss to him will be real, but a man who is not worth a sixpence is indifferent whether he loses £1,000 or £1,000,000.

This system of Accommodation Paper of different descriptions is one of immense importance in modern commerce, and its abuse has led to some of the most terrible mercantile catastrophes on record. It is, however, so intimately interwoven with banking, that we shall defer any more mention of it till the next chapter, which treats of the operations of Banking.

16. We have observed that so far as regards Production, which in a scientific sense includes the Formation and Transfer of products, Credit, whenever it is applied, performs exactly the same function as Money. All commercial transactions on Credit are SALES. The absolute Property of the article passes from the vendor to the purchaser just exactly as if the price had been paid in Money. The only difference to the purchaser is that his profits are less, because the Credit price is higher than the Money price. So long as matters proceed smoothly, and transactions are profitable, the Bills generated by commerce are equivalent to so much Money. The difference arises when the sales are unprofitable and losses ensue. If the wholesale dealer buys from the manufacturer with ready money, and the speculation is unfortunate, the whole loss falls upon the dealer, the manufacturer does not lose; he has got his money. But if the manufacturer sells for Credit and the speculation is unfortunate, and a loss ensues, or if the wholesale dealer fails from other reasons, the loss may fall upon him. When he has sold on Credit to the dealer his power over the goods is absolutely gone; and if the bill is unpaid he cannot reclaim the goods, even if they are still in the possession of the purchaser: he has no more claim to them than any other creditor. Consequently if the dealer has not sufficient funds to pay his debts, the loss falls upon the original manufacturer. In this then consists the whole difference between sales on Credit and sales for Money, that if losses ensue, they may be differently distributed. No doubt the manufacturer finds that a Bill of Exchange is not so negotiable as a Bank Note or Money, but it is of the same nature, and must be placed in the same category. The Money is nothing but a Bill upon the whole community. Good bills do, to a considerable extent, circulate in commerce like money; but the manufacturer generally finds it more convenient to sell the

bill to his banker, and how the banker buys it will be explained in the next chapter.

Now we have shewn that Capital, in its most general sense is not any particular thing, but simply an Economic Quantity, be it Currency or anything else, employed in reproductive operations. In its general sense it is the Purchasing Power of the merchant, or it is the moving power at his command to generate a circulation of commodities, out of which he reaps his profits. The Money he has is the fruit of the services he has formerly done to the community. Credit is also the power he has of drawing the goods from the possession of the manufacturer, and is the pledge of his skill in rendering future services to the community, by discerning their wants and supplying them. The effect upon the market and upon prices is exactly the same whether purchases, *i.e.* circulation of commodities, be generated by Credit or by Real Capital, and the profits and losses are exactly the same to the community, whether the operation be effected by Credit or by Real Capital. Hence it is seen how MERCANTILE CREDIT IS MERCANTILE CAPITAL.

It has frequently been observed that all great inventions have an equalising tendency: the invention of gunpowder equalised the condition of the poorest foot soldier and the wealthiest knight, and it destroyed the supremacy of the knights: the invention of printing opened up the paths of knowledge to the poorest as well as to the rich, and destroyed the supremacy of wealth in the acquisition of science: the invention of steam and railroads has equalised the means of locomotion to the humble and to the wealthy; so the invention of Credit has destroyed the supremacy of Money, and has provided the means for the most humble to place his foot on the ladder of opulence. It is a matter of common observation that nothing is so difficult as the first step to wealth: that many men could get on if they could only make a beginning. Now Credit supplies the means of attaining that first step to all. Credit is a mighty power, and no doubt, like other great engines, is liable to be abused: but it is entitled to take rank with gunpowder, printing, and steam, among the marvels of human ingenuity; and it has been the chief cause of the magnitude of modern commerce.

CHAPTER VI.

THE THEORY OF BANKING.

On the Meaning of the word BANK.

1. THE word BANK originated in this way. In the year 1171 the City of Venice was at war with both the eastern and western Empires. The finances were in a state of great disorder; and the Great Council ordered a forced loan of 1 per cent. from every citizen, upon payment of interest at five per cent. Commissioners were appointed to manage the payment of the interest to the fund holders and the transfers of the Stock. Such a loan has several names in Italian, such as *Compera*, *Mutuo*, but the most usual is *Monte*, a joint stock fund. The citizens received Stock certificates in exchange for the sums they paid, bearing interest, which they might sell or transfer to any one else. The original loan was called the *Monte Vecchio*: afterwards two other similar Loans were contracted which were called the *Monte Nuovo and Monte Nuovissimo.*

At this period the Germans were masters of a great part of Italy; and the German word BANCK came to be used as well as its Italian equivalent MONTE: and was Italianised into BANCO; and the loans, or Public Debts, were called indifferently MONTI or BANCHI.

Thus an English writer Benbrigge in 1646 speaks of the "three BANKES of Venice" meaning the three public loans, or Monti.

So a recent eminent Italian writer, Count Cibrario, says—"Regarding the Theory of Credit which I have said was invented by the Italian cities, it is known that the first BANK (*banco*) or Public Debt was erected at Venice in 1171. In the

13th century Paper Money is mentioned at Milan: the credit was paid off. A MONTE or Public Debt was established at Florence in 1336.

"At Genoa, during the wars of the 14th century, the Bank of St. George was established, formed of the creditors of the State."

So in Florio and Torriano's Italian Dictionary 1659, it says—"MONTE—a standing *Bank* or *Mount* of money, as they have in divers cities of Italy, namely in Rome or Genoa."

The BANK of Venice then was in reality the origin of the Funding System; or the system of Public Debts: it did not for many centuries do any of what we call banking business.

2. The meaning of the word Bank was the same in English when it was first introduced.

Thus Bacon says—"Let it be no BANK or common stock, but every man master of his own money."

So Gerard Malynes, a Mercantile writer in 1622, says—"In Italy there are *Montes Pietatis*, that is to say MOUNTS or BANKS of Charity."

Benbrigge in his "Usura Accommodata" in 1646 says—"For their rescue may be collected MONS *Pietatis sive Charitatis* or BANKE of *Piety or Charity*, as they of Trent fitly call it. Again for borrowers in trade for their supply as their occasion shall require; may be erected MONS *Negotiationis* or BANKE *of Trade*."

In the time of Cromwell many proposals were made to erect Banks in London. A merchant writing in 1658 says—"A Bank is a number of sufficient men of estates and credit joined together in Joint Stock, being as it were the general cash keepers, or treasurers of that place where they settled, letting out *imaginary money* (i.e. Credit) at interest at £2½ or £3 per cent. to tradesmen, or others that agree with them for the same, and making payment thereof by assignation, and passing each man's account from one to another with much facility and ease."

So Blackstone says—"At Florence in 1344, Government owed £60,000, and being unable to pay it, formed the principal into an aggregate sum, called metaphorically, a MOUNT or BANK."

The essential feature of all these "BANKS" was that a number of persons placed their money in them and received in exchange

for it, Credit, or a Promise to pay: which Credit they might transfer to any one else.

The Bank of England was formed in a similar manner of a company of persons who advanced a sum of money to Government, and received in exchange for it an Annuity. This was the foundation of our regular National Debt: and to the present day the Funds are Legally called "Bank Annuities."

On the Definition of a BANKER.

3. The Nature of a Bank therefore being to receive Money and issue Credit in exchange for it, the business of a "Banker" is exactly the same.

The Romans invented the business of banking. Roman bankers were called *Argentarii*: they received the money of their clients, who could give their creditors cheques on their bankers, as is the modern custom. We have already seen that they invented Bills of Exchange, and to send a draft or bill for money was called *permutare*. But about the first century A.D. a provincial Latin word *cambio* (*-ire* or *-iare*) began to be used instead of *permutare*: and eventually entirely superseded it. And those persons who followed the business of the Roman *Argentarii* came in the course of the middle ages to be called *Cambitores*, or *Cambiatores*. As Commerce increased in the prosperity of the eleventh century, they established correspondents in various parts of Europe and drew bills upon them called *Litteræ Cambitoriæ* or Bills of Exchange.

Afterwards when the word *Banco* came into use, as their business was similar in its nature, they came to be called *Banchieri*, and the drafts they issued *Litteræ bancales*.

Galiani, an Italian writer, says—"The first Banks were in the hands of private persons with whom people deposited Money, and from whom they received Bills of Credit, and who were governed by the same rules as the public Banks are now. And thus the Italians have not only been the fathers, and the masters, and the arbiters of commerce: so that in all Europe they have been the depositaries of money and are called BANKERS."

Genovesi says—"These Monti were at first administered with

scrupulous fidelity, as are all human institutions made in the heat of virtue. From which it came to pass that many placed their money in deposit, and as a security received Paper which was called and is still called Bills of Credit. Thus private banks were established among us, whose Bills of Credit acquired gradually a great circulation and increased the quantity of signs and the velocity of Commerce."

Also—"The Bill of Exchange is called *drawn* by him who sells it, and is called remitted on the part of the correspondent who must pay it. Those who make this their special business are called *Cambists*, and BANKERS in the language of the great commerce of Europe."

The essential feature of a "Banker" is that when his customers place money with him, it becomes his absolute property to deal with as he pleases, and he is in no way accountable to them for the purposes he applies the money to. The customers of a "banker" cede to him absolutely the property in their money; and receive in exchange for it the Right to have an equal sum paid back on demand. A banker, therefore, is not the Trustee of his customers, but simply their Debtor.

And this was always regarded as the essential feature of a "banker." Marquardus says—"And by 'banking' is meant a certain species of trading in money, under the sanction of public authority, in which money is placed with bankers (who are also called Cashiers and Depositaries of money), for the security of Creditors and the convenience of Debtors, in such a way *that the Property in the money passes to them*: but always on this condition understood, that any one who places his money with them may have it back whenever he pleases."

Thus a "Banker" always buys money with his CREDIT: and moreover when he buys Commercial Debts, he always does it with his CREDIT also and not with cash.) This is the essential distinction between a "Banker" and a bill discounter, that a banker always buys Bills with his Credit, and a bill discounter with cash. Hence when a Bill discounter has invested all the cash in his possession, either his own, or what others have placed with him, in this way, he is at the end of his resources. But a *Banker* always buys Commercial Debts with his own Credit, or

with his promise to pay: and experience shews that his Credit may exceed several times the cash in his possession. How many times his Credit may safely exceed his cash, may differ in different localities: and in different methods of doing business: but at all events it may do so *several* times. Thus the essence of the business of banking is to CREATE CREDIT. This Credit is of course made payable in money, but in practice it is very rarely actually paid in money. We have shewn above that a mutual release of debts is absolutely equivalent to a reciprocal payment of debts; and by the modern banking system, the enormously greater proportion of banking Credit is extinguished by mutual releases of debts.

This is the true definition of a "Banker"—

A BANKER *is a Trader who buys Money, or Money and Debts, by creating other Debts.*

A banker, then, is a trader who keeps an open shop for the sale of CREDIT: he may, it is true, add other species of money dealing to his business: but the above is the essential definition of "Banking." The first business of a banker is not to *lend* money to others, but to *collect* money *from* others.

On the CURRENCY PRINCIPLE.

4. The express function of a Bank then being to create Credit, we must now explain a phrase which has been frequently used in recent times, and which must be fully understood before we come to the exposition of the system which the Bank Charter Act of 1844 is designed to carry out.

Many writers have maintained that a Bank should only be allowed to create exactly as much Credit as the specie paid in, and that its sole function should be to exchange Credit for specie, and specie for Credit: and that the quantity of its Credit should always be exactly the same as the specie it displaces. This principle is called by its advocates the "CURRENCY PRINCIPLE:" and they assert that any creation of Credit in excess of the specie it displaces causes a depreciation of the Currency.

Many Banks have been constructed on this principle,

especially those of Venice, Amsterdam, Hamburg, and several others.

These places, small in themselves, were the centres of a great foreign commerce; and as a natural consequence, an immense quantity of coin of all sorts, of different countries and denominations, was brought by the foreigners who resorted to them. These coins were moreover greatly clipped, worn, and diminished. This degraded state of the current coin produced intolerable inconvenience, disorder, and confusion among merchants, who when they had to make or receive payment of their bills, had to offer or receive a bagful of all sorts of different coins. The settlement of these bills, therefore, involved perpetual disputes—which coins were to be received, and which were not, and how much each was to count for. In order to remedy this it became absolutely necessary that some fixed uniform standard of payment should be devised, to insure regularity and a just discharge of debts. In order to do this the Magistrates of these cities instituted a Bank of Deposit, in which every merchant placed all his coins of different kinds and nations. These were all weighed, and the Bank gave him Credit, either in the form of Notes, or a Credit in their books, exactly corresponding to the real amount of the bullion deposited. The owner of this Credit was entitled to have it paid in full weighted coin on demand. These Credits, therefore, always insured a uniform standard of payment: and it was enacted that all bills upon these respective cities, above a certain amount, should be paid in these Bank Credits, which were called Bank Money. The consequence was evident; as this Bank Credit, or Bank Money, was always exchangeable for money of full weight on demand, it was always at a premium, or *agio*, as compared with the worn, clipped, and degraded money in circulation. The difference was usually from 5 to 9 per cent. in the different cities. The expression *agio* or premium, is likely to mislead, because it is clear that it was the Bank Money which was the true standard, and the current Money which was at a discount. These Banks professed to keep all the coin and bullion deposited with them in their vaults. They made no use of it in the way of business, as by discounting bills. Thus the Credit created was exactly equal to the

specie deposited; and their sole function was to exchange specie for Credit, and Credit for specie.

These Banks were examples of the CURRENCY PRINCIPLE. They were of no further use to commerce than that they served as a safe place to keep money in; and they insured a uniform standard of payment for Debts. They made no profit by their business; but those who kept their accounts with them paid certain fees to defray the expenses of the establishment.

We do not in any way discuss the soundness of this principle: our only object is to state clearly what the principle is.

On the Mechanism of BANKING.

5 Banks of the nature of those of Venice, Amsterdam, and Hamburg, never existed in this country; and we must now explain the mechanism of that great system of commerce in Debts, Credits, or Rights of action, called "Banking" as it has been carried on in this country.

It was during the civil war, as we have shewn elsewhere, that the Goldsmiths of London began to receive the cash of the merchants in deposit. They not only agreed to repay it on demand, but to pay 6 per cent. per annum for the use of it. Consequently in order to enable them to do that, it necessarily became their Property to trade with as they thought best. They were not the TRUSTEES of the money, but its PROPRIETORS; and it was not placed with them as a *Depositum* to be restored *in specie*; but it became theirs as a *Mutuum* to be restored *in genere*: and therefore they received it as "bankers."

When therefore these Goldsmith-Bankers received this money in deposit, they gave in exchange for it, or "issued" to their customers, a Credit, or Right of action, to have an equal amount of money back on demand. And it must be observed that it is this banker's Credit, or Right of action, which in banking language is termed a DEPOSIT. The Money itself is called an Asset.

6. Let us for the present leave out of consideration any private property the goldsmiths may have had, and for the sake of convenience let us deal with small figures. Suppose the

goldsmith has £10,000 deposited with him by his customers; then as he has created an equal amount of Credit, Debt, or Rights of action against himself, which in banking language are called Deposits, in exchange for this money his accounts would stand thus—

Liabilities.		*Assets.*	
Deposits . .	£10,000	Cash . . .	£10,000

Now experience would soon shew him that if some of his customers demanded payment of their Deposits, or Credits, from day to day, others would probably pay in about an equal sum, so that at the end of the day there would probably not be much difference in his cash. In practice it will be found that in ordinary times, a banker's balance in cash will seldom differ by more than one 36th part from day to day. So that if he retains one *tenth* part of his cash to meet any demands for payment that may be made, that is ample and sufficient in ordinary times.

The goldsmith, then, in the above case, if he kept £1000 in cash might trade with the remainder so as to produce profits to pay interest upon the whole.

They found that the most eligible mode of trading was to buy, or discount Commercial Debts, in the form of Bills of Exchange.

Now we have observed above that "bankers" invariably buy, or discount, Commercial Bills, with their own Credit in the first instance. The banker, therefore, would see that if an amount of cash was sufficient to support the Credit of *ten* times that amount of liabilities, he might safely buy Debts to several times the amount of cash in his hands. With such an amount of cash as £9000, he might safely buy £40,000 of Commercial Bills. Now supposing the Rate of Discount was 8 per cent. per ann., and the bills at three months, the discount on this sum would be £800. Consequently in exchange for Commercial Debts to the amount of £40,000, he would create Credit against himself to the amount of £39,200. But the Credit he places to the accounts of his customers, or the Liabilities he creates against himself, is called a DEPOSIT, equally as the Credit created in exchange for cash.

Hence just after purchasing these Bills his accounts would stand thus—

Liabilities.		*Assets.*	
Deposits . .	£49,200	Cash . . .	£10,000
		Bills of Exchange .	40,000
	£49,200		£50,000.

Now by this process the "banker" has added £39,200 of Credit to the previously existing Cash; and his Profit is clear, he gains 8 per cent. on the £40,000 and he pays 6 per cent. on the Deposits, or Credit left unclaimed.

Now this is what the business of "banking" consists in; and hence the correctness of the definition of a "banker" given above is manifest:—

A Banker is a Trader whose business consists in buying Money and Debts, by creating other Debts.

Thus it is seen that the essential and distinctive feature of a "bank" and a "banker" is to issue Credit payable on demand, and this Credit may be put into circulation, as we shall see presently, and serve as Money.

The banker, then, having created these Credits or Rights of action, or Deposits, his customers might utilise them in three ways—

1. They might demand payment in cash: if they did so the banker's liability was extinguished.

2. The banker, if his customers wished it, gave them his Promissory Note to pay them, or the bearer, such sum as they might wish, on demand: this neither created nor extinguished a liability, it merely recorded it on paper, for the convenience of transferring it to some one else. This *Promise to pay* was at first called a Goldsmith's note, and is now called a Bank Note.

3dly. If the customer wished to make a payment he might write a note to his banker desiring him to pay the money to some particular person, or to his order, or to bearer. These notes were formerly called Cash Notes, but are now called CHEQUES.

Like a Bank Note, a Cheque does not create any new Right,

it merely records on paper a Right which already exists, and it is used for the purpose of transferring that Right to some one else.

It is to be observed that all Banks whatever are Banks of "Issue." The very meaning of the word to "Bank" is to "issue" a Right of action or Credit, in exchange for Money or other Debts; and when once the banker has "issued" this Right of action to his customer by writing it down to his Credit, it makes not the slightest difference in his liability whether he delivers his own Promissory Notes to his customer, or whether he merely creates the Credit, and gives him the Right to transfer it to some one else by means of a CHEQUE.

7. The preceding considerations shew what a complete mistake it is of the nature of "banking," to say that bankers are merely agents between persons who want to lend and persons who wish to borrow. This is entirely untrue in the ordinary sense of the words *lending* and *borrowing*: because in the ordinary case of "lending," the lender deprives himself of the use of the capital he lends. But when a person pays in money to his banker's, it is not his intention to deprive himself of the use of it: on the contrary he means to have as free use of it as if it were in his own purse. The customer, therefore, lends his money to his banker, but yet at the same time has the free use of it—the banker employs that money in promoting trade; upon the strength of its being deposited with him, he buys debts with his Promises to pay, several times exceeding the amount of the cash placed with him, and the persons who sell him their debts have the free use of the very same coin which the lender has the same right to demand. Thus the lender and the borrower have the same right at the same time to the free use of the same money: and all banking depends on the calculation that only a certain small portion of each set of customers will demand the actual cash, but that the majority will be satisfied with the mere "promise," or the Credit.

Banking is a species of insurance: it is theoretically possible that a banker may be called upon to pay all his liabilities at once: just as it is theoretically possible that all the lives insured in an office may drop at the same instant: or it is theoretically possible that all the houses insured in an office might be burnt

at the same time. But all insurance and banking is based upon the expectation that these contingencies will not happen. A banker *multiplies* his liabilities to pay on demand, and keeps by him a sufficient amount of cash to insure the immediate payment of all claims which are likely to be demanded at one time. If a pressure comes upon him he must sell some of the securities he has bought, or borrow money on them.

When the customer discounts the bill with his banker he parts with the property in it just as when he sells any other article. The bill becomes the absolute property of the banker, which he may sell again, or pledge, or deal with in any way that suits his own interest best. The banker does not get payment from his own customer but from the acceptor of the bill. He buys the bill from his own customer, and sells it to the acceptor: merely retaining his own customer as a security in case the bill is not paid. The bills in the portfolio of a banker are exactly similar to the goods in the shop of a retail dealer. The retail dealer buys the goods from the wholesale dealer, and sells them at a higher price to his customers: and as he makes a profit by so doing, the goods are CAPITAL to him. Bills are goods, or merchandise, which the banker buys from his own customers at a discount and sells them at a higher price to the acceptors: and as he makes a profit by so doing, the bills are CAPITAL to him precisely in the same way as the goods in the shop of any retail dealer.

8. London bankers continued to issue their own notes till nearly the end of the last century; the last London banker's note we have seen is dated 1793: but they never were forbidden to issue notes till the Bank Act of 1844. Consequently if a customer has a Credit in a bank at the present day he can only draw out the cash; or give a cheque for it to some one else. It is sometimes supposed from this that the London banks are Banks of Deposit like those of Venice, Amsterdam, and Hamburg. This however is a very great error. All banks purchase Money and Bills by "issuing" Credit, or Rights of action, against themselves: they create Credit exactly as they have always done: the only difference is that they have discontinued one of the methods in which they formerly allowed their customers to put

it into circulation: but they continue the other. Customers can only now circulate Bank Credits by Cheques, and not by Cheques or Bank Notes; but the Credit created is exactly the same.

9. It is necessary to advert to an error which is very common, and to warn the reader against. Many persons not being aware that the word "DEPOSIT" in banking language means the CREDIT CREATED in exchange for Money and Bills, when they hear or read that a Bank has such an amount of Deposits, conceive that the Bank has that amount of cash to trade with. When it is said that a great London Joint Stock Bank has perhaps £25,000,000 of "Deposits" it is almost universally believed that it has 25 millions of actual money to "lend out," as it is erroneously called. And every half year we see summaries in the newspapers shewing that the Joint Stock Banks have in the aggregate perhaps £200,000,000 of Deposits, and it is supposed that they have that quantity of money to trade with. But it is a complete and entire delusion. These 200 millions of "deposits" are not "deposits" in cash at all: they are pure Credit, and are exactly equivalent to so many Bank Notes. They are nothing but an enormous superstructure of CREDIT, built up on a comparatively small basis of bullion, exactly like the note circulation. These figures do not shew the quantity of cash at the command of the banks to trade with: but they shew the quantity of Business they have done, and the liabilities they have created. These apparent Deposits, then, which so many writers think are Cash, are nothing but the CREDIT the banks have created in exchange for the Cash and Bills which figure on the other side of the balance sheet as Assets.

These considerations give an explanation of some very well known phenomena respecting Joint Stock Banks which publish their accounts, and give interest on "Deposits," according to the rate of discount. When the Rate of discount rises very high it is universally observed that the apparent "deposits" in banks decline, and it is very commonly explained by saying that when interest rises very high people take their money out of banks to invest it in other ways. But such an explanation is paradoxical on the face of it. Banks raise the rate of interest to

attract money not to drive it away. Besides if one asks contractors, or builders at such periods, they will say that work is stopped because people put their money into banks for the sake of the high interest. Thus we meet with two diametrically contrary assertions as to the flow of money at such periods; but if we understand the real nature of these so called "deposits" the reason of their diminution is plain: because when the rate of discount rises very high, it stops the discount of bills, it stops the *creation of* CREDIT; in fact *it is not a diminution of Deposits in cash, but it is a* CONTRACTION OF CREDIT.

This erroneous notion of the real meaning and nature of "deposits" in banking language may lead to great mistakes in estimating the stability of a bank. That depends on a due proportion being kept between the Deposits or the liabilities and the cash: and it may very well happen that while the "deposits" were apparently mounting up, and might lead many persons to believe that the actual quantity of cash was increased, it might be nothing, perhaps, but a dangerous extension of Credit. And if this were carried to too great a length, the bank might be in the most dangerous position just when it was apparently most flourishing. A private banker on a large scale may have an application to place £10,000 to the credit of a customer: if he does so it immediately counts as a "Deposit" in banking accounts. A railway company may request their banker to place £100,000 to their credit. If the bank does this such a transaction goes to swell up the figures of the "Deposits" in their published accounts, which may lead to very erroneous inferences by the public who do not know the mode in which banking accounts are made up.

10. A "banker" then having purchased either money or Securities from his customers by creating or issuing Rights of action, or Deposits, we have now to consider how the customer may operate upon these Credits. Every banker does business exactly in the same way, and when their respective customers begin to operate by means of Cheques, the following different results may ensue—

1. The actual money may be drawn out.

2. The Credit may be transferred to the account of another customer of the same bank.

3. It may be an order to pay another bank. But in this case if the Bank A is ordered to pay the Bank B so much, the chances are that B will be ordered to pay A very much the same amount. If the claims of the two banks on each other are exactly equal, the respective Cheques, or orders, are interchanged, and the Credits readjusted to the different customers' accounts accordingly, without any payment in money. If it should happen that the claims of all banks against each other exactly balanced, any amount of business might be carried on without requiring a single coin. If the mutual claims of the different banks against each other do not exactly balance, it is only necessary to pay the *differences* in coin.

We have seen that the transfer of a Credit from the account of one customer to that of another in a Bank is exactly equivalent to a payment in money. There is an office for the express purpose of effecting these transfers of Credit from one bank to another. This office is called the Clearing House, and we have given an account of it in a subsequent chapter. By its means all the Banks which make use of it are practically united into one huge Bank for the purpose of transferring Credits from one to another. During the course of the year 1874 upwards of £6,000,000,000 of Credits, or Debts, were interchanged, or transferred from different banks to each other, by means of the Clearing House. And just as Banks are brought into a closer degree of relationship with each other by such means, the less is the quantity of coin required to carry on the business of the country: or rather the more gigantic is the superstructure of Credit which may be reared up on a given basis of specie: and in fact the stupendous amount of Liabilities, or Credit, which the perfection of the present banking system of London has permitted to be erected on a small basis of specie, has already begun to inspire uneasiness among well-informed persons.

From the foregoing considerations we see that a merchant deals *with* Credit; but a banker is a dealer *in* Credit. A merchant brings his Debts payable some time after date, for sale, and by a flourish of his pen, the banker buys them in exchange

for Debts payable instantly, which have precisely the same effect in commerce as so many sovereigns. He reaps exactly the same profit by creating a Credit in favour of his customer, as if he gave him the actual cash. And the Cheques drawn against these Credits so created by the banker circulate commodities exactly in the same way that Bank Notes do, which circulate commodities exactly in the same way that gold coin does. Consequently these Bank Credits, so created by the banker, are exactly equal in their practical effects to the creation of so much gold.

11. As we have seen that the nature of discounting bills of exchange is buying Debts, which are to be considered just like any other articles of commerce, it follows that the same laws govern their exchangeable relations as those of any other quantities. The first duty of a banker is to maintain his own position, which he can only do by maintaining a certain proportion between his cash and his promises to pay, or his liabilities: and that proportion must vary from time to time, according to circumstances. In time of a general failure of Credit, he must maintain a very much larger portion of Cash compared to liabilities than in times of general confidence. Under such circumstances, his duty is to *contract* his liabilities, which he must do either by refusing to buy Debts altogether, or else by giving a lower price for them *i.e.* raising the Rate of Discount. And a general rise of the Rate of Discount has a tendency to discourage the offering of Debts for sale, just as a low price of anything else discourages its being offered for sale, except by those who positively require the cash.

On the other hand this lowering of the price of Debts, *i.e.* this increase of the Value of Money, or the raising of the Rate of Discount, has an inevitable tendency to attract bullion from where it is more abundant, *i.e.* where the Rate of Discount is lower. Wherever Debts are to be bought cheap thither will bullion fly to buy them; wherever Debts are sold dear, that is wherever Money is to be bought cheap, thither will Debts fly to be sold, and there will competitors be to buy money. Consequently it is an infallible law of nature that whenever the price of Debts differs in two markets by more than sufficient to defray the expenses of sending bullion, it will cause an immediate

flow of bullion to that market where Debts are to be bought cheapest, *i.e.* where the Rate of Discount is highest. That is to say, if the Rate of Discount at Paris is greater than at London by more than sufficient to cover the expense of sending bullion from London to Paris, Debts will fly from Paris to London to buy bullion, and Bullion will fly from London to Paris to buy Debts.

The exchangeable relations of Money and Debts will obey exactly the same Laws as the exchangeable relations of money and wheat. Consequently if left free and uncontrolled the price of Debts has a natural tendency towards equilibrium in different markets.

On Cash Credits.

12. The Credit created by the Bankers in the operations just described was employed to buy Commercial Bills, which arose out of the *transfer* of Commodities, and we have seen that they create Credit to several times the amount of cash in their possession. We have now to describe a species of Credit of a totally different sort, invented in Scotland, and to which the marvelious progress and prosperity of that country is mainly due.

The Bank of Scotland began to issue £1 notes about the beginning of the last century. In 1727 another Bank was founded named the Royal Bank. In the very contracted sphere of Scottish commerce at that time, there were not sufficient Commercial Bills to exhaust the Credit of the Banks. They had as it were a superfluity of Credit on hand, and the Royal Bank devised a new means of getting it into circulation.

It agreed on receiving sufficient guarantees to open or create Credits in favour of respectable and trustworthy persons.

A Cash Credit is therefore simply a drawing account, created in favour of a customer, upon which he may operate in precisely the same manner, as on a common drawing account. The only difference being that instead of receiving interest upon the daily balance to his Credit, as is very commonly the custom in Scotland, he pays interest on the daily balance at his debit. It is thus an *inverse* drawing account.

All these advances are made exclusively in the Bank's own notes, and they are not made on the basis of any previous transaction.

13. Cash Credits are applicable to a totally different class of transactions from those which give rise to Bills of Exchange, and we will now explain their nature more fully.

Every man in business, however humble or however extensive, must necessarily keep a certain portion of ready money by him to answer immediate demands for small daily expenses, wages, and other things. This would of course be much more profitably employed in his business, where it might produce a profit of 15 or 20 per cent. instead of lying idle. But unless the trader knew that he could command it at a moment's notice, he would always be obliged to keep a certain portion of ready money in his own till, or he must be able to command the use of some one else's till. Now one object of a Cash Credit is to supply this convenience to the trader, to enable him to invest the whole of his capital in trade, and upon proper security being given, to furnish him with the accommodation of a till at a moment's notice, in such small sums as he may require, on his paying a moderate interest for the accommodation.

Almost every young man commencing business in Scotland does it by means of a Cash Credit. A young solicitor for instance in England must have a very considerable amount of ready money to begin business with any ease to himself, as he is expected to make disbursements before he can get in payments from his clients. But in Scotland this is done by means of a Cash Credit which is guaranteed by his friends.

14. These Credits are granted to all classes of society, to the poor as freely as to the rich. Everything depends upon character. Young men in the humblest walks of life inspire their friends with confidence in their steadiness and judgment, and they become sureties for them on a Cash Credit. This is exactly the same thing as money to them, and then they have the means placed within their reach of rising to any extent to which their abilities and industry permit them. Multitudes of men who have raised themselves to enormous wealth, began life with nothing but a Cash Credit. As one example among thousands, Mr. Monteith,

M.P. told the Committee of the House of Commons in 1826 that he was a manufacturer, employing at that time 4,000 hands, and that with the exception of the merest trifle of capital, lent to him, and which he very soon paid off, he began the world with nothing but a Cash Credit.

The banks usually limit their advance to a certain moderate amount varying from £100 to £1,000 in general, and they always take several sureties in each case, never less than two, and frequently many more, to cover any possible losses that may arise. These cautioners, as they are termed in Scotch Law, keep a watchful eye on the proceedings of the customer, and have always the right of inspecting his account with the bank and of stopping it at any time, if irregular. These Credits are not meant to degenerate into dead loans, but they are required to be constantly operated upon by paying in and drawing out.

The enormous amount of transactions carried on by this kind of accounts may be judged of by the evidence given before the Committee of the Commons in 1826. It was stated that on a Credit of £1,000, operations to the extent of £50,000 took place in a single week. Its effects therefore were exactly the same as if there had been 1,000 sovereigns. Others stated that on a Cash Credit of £500 operations to the amount of £70,000 took place in a year. One witness stated that during 21 years in a very moderately sized country bank, operations had taken place to the amount of nearly £90,000,000, and that there never had been but one loss of £200 on one account; and that the whole losses of the bank during that period did not exceed £1,200. Now this immense mass of transactions was effected by creations of pure Credit. At that time it was conjectured that there were about 12,000 Cash Credits guaranteed to persons in Scotland, and that there were about 40,000 persons as sureties, who were interested in the integrity, prudence, and success of the others. The witnesses before the Lords declared that the effects of these were most remarkable on the morals of the people.

15. But the operation of these Cash Credits is immensely extended beyond Commerce, and their advantages are more openly and strikingly displayed in the prodigious stimulus they

have given to the agriculture of Scotland. They have indeed been the principal means of making it what it is. In the Scottish system of farming, leases almost universally prevail, and a farm is not entrusted to a man who is not educated to his business. He usually enjoys nineteen years' security of tenure; or where leases are granted for the purpose of reclaiming land, for much longer periods. Now suppose a farmer is known to be active, skilful, and industrious, and obtains a farm upon lease, which is capable of great improvement, he goes to the bank, and upon the security of the lease and some friends who become sureties for him, the Bank grants him a Cash Credit. With this advance—pure Credit—he reclaims the land, employs the people, reaps the harvest, and, when it is gathered, pays back the loan.

It was in this manner that the prodigious progress in agriculture was made in Scotland. There were immense quantities of reclaimable land, and abundance of unemployed people, but no Capital, or Money, to set their industry in motion. Seeing this state of matters the Banks opened branches in numerous parts of the country and sent down boxes of £1 notes, and granted Cash Credits to the farmers. These notes were universally received as readily as Coin. The farmers made their purchases and paid wages with them: and immense tracts of barren land were changed into fertile corn fields. Now these £1 notes were not a substitute for any specie, they did not supersede or displace any previously existing money, they were a pure ADDITION to the existing money; they were in fact exactly equivalent to the creation of so much gold.

Commerce and agriculture, therefore, received their prodigious stimulus from these Cash Credits. But they were of equal use in a public point of view. Almost all the great public works of every description were created by means of these Cash Credits. One witness stated that the Forth and Clyde Canal was executed by means of a Cash Credit of £40,000 granted by the Royal Bank. And in exactly a similar way whenever any other great public works are to be done, such as roads, bridges, canals, railways, docks, &c. the invariable course is to obtain a large Cash Credit at one of the Banks.

The advantage to the person who has the Cash Credit is that he only pays interest from day to day on the sum he actually has at his Debit, whereas in discounting a Bill of Exchange, he pays interest on the whole amount of his Credit, whether he uses it or not, and discount is a trifle more expensive than interest. The Bank would therefore naturally prefer to employ its resources by way of discount if it could, rather than Cash Credits. There is also a further disadvantage attending them, that they cannot be called up on a sudden emergency: and if there should be a run upon the bank the security cannot be negotiated like a Bill of Exchange. It is, therefore, only where a Bank has a superfluity of Credit which it cannot employ profitably, that it would resort to Cash Credits, and also when there is but a slight chance of a run upon it.

For these reasons Cash Credits have always been looked upon with very unfavourable eyes by London bankers, and for very good reasons. In the first place their Credit, until recently, was not so solid and well established as that of the principal Scotch Banks. These originated Cash Credits in consequence of their power of issuing £1 notes; and London bankers do not issue circulating Credit in the form of notes—they can always find employment for their cash—and they are more liable to runs.

All these marvellous results, which have raised Scotland from the lowest state of barbarism up to her present proud position in the space of 150 years, are the children of pure CREDIT. It is no exaggeration whatever, but a melancholy truth, that at the period of the Revolution of 1688 and the establishment of the Bank of Scotland, that country, partly owing to such a series of disasters as cannot be paralleled in the history of any other independent nation, and partly owing to its position in the very outskirts of the civilised world, and far removed from the humanising influence of Commerce, divided in fact into two nations, aliens in blood and language, was the most utterly barbarous, savage, and lawless kingdom in Europe. And it is equally undeniable that the two great causes of her rapid rise in civilisation and wealth have been her systems of national education and banking. Her system of banking has been of infinitely greater service to her than mines of gold and silver.

Mines of the precious metals would probably have demoralised her people. But her banking system has tended immensely to call forth every manly virtue. In the character of her own people, in their steadiness, their integrity, their honour, Scotland has found wealth infinitely more beneficial to her than the mines of Mexico and Peru.

Now we observe that these Cash Credits which have produced such marvellous results are purely of the nature of *Accommodation Paper* in England. They are not based upon any previous operations, nor upon the transfer of commodities already in existence. They are created for the express purpose of *creating* or forming future products, which would either have had no existence at all but for them, or, at all events, it would have been deferred for a very long period, until solid money could have been obtained to produce them. Thus we have an enormous mass of exchangeable property, created by the mere will of the bank and its customers, which produces all the effects of solid gold and silver, and when it has done its work it vanishes again into nothing, at the will of the same persons who called it into existence.

Hence we see that the mere will of man has *created* vast masses of wealth out of *Nothing*, and then DECREATED them into Nothing, which having served their purpose after a time were

"Melted into air, into thin air."

But their solid results have by no means faded like the baseless fabric of a vision, leaving not a rack behind. On the contrary their solid results have been her far famed agriculture; the manufactures of Glasgow and Paisley; the unrivalled steam ships of the Clyde; great public works of all sorts, canals, railroads, roads, bridges; and poor young men converted into princely merchants.

On ACCOMMODATION BILLS.

16. We now come to a species of Credit, which will demand great attention, because it is the curse and plague spot of Commerce, and it has been the great cause of those frightful commercial crises, which seem to recur periodically; and yet though there can be no doubt that it is in many cases essentially fraudu-

lent, yet it is of so subtle a nature as to defy all powers of Legislation to cope with it.

We have shewn by the exposition of the system of Cash Credits, that there is nothing essentially dangerous or fraudulent in a Credit being created for the purpose of promoting future operations. On the contrary, such Credits have been one of the most powerful weapons ever devised by the ingenuity of man to promote the prosperity of the country. A certain species of this Credit, however, having been grossly misused for fraudulent purposes, and having produced great calamities, we must now examine wherein the danger and the fraud of this particular form of Credit lie.

When a Bill of Exchange is given in exchange for goods actually purchased at the time, it is called a Real Bill, and it is supposed by many writers, and even by many commercial men, that there is something essentially safe in it; because as the goods have been received for it, it is supposed that they are always there to provide for the payment of it; and that only so much Credit is created as there are goods to redeem it.

But such ideas are highly erroneous. A Bill of Exchange, it is true, only arises out of a transfer of goods: but then a fresh bill is created at each transfer. In the ordinary course of business, there will always be in general, at least *twice* the amount of bills to what there are goods. But if twenty transfers took place, twenty bills would be created. If goods to the amount of £100 were transferred twenty times, supposing even that the price of the goods did not change, which it most assuredly would, there would be Credit created to the amount of £2,000. And it would only be the last holder of the goods who would have them, and be enabled to devote the proceeds to the payment of the last bill only. The remaining nineteen bills must evidently depend upon other sources for payment.

The security, therefore, which is supposed to reside in Real Bills, on account of their being founded on the transfer of goods, is shewn to be to a great extent imaginary. Suppose however that A sees that a profitable operation may be done. The Bank will not, as traders do, make him an advance on his own name alone. It must have at least *two* names. A therefore goes to B,

and gets him to join him as security to the bank, on engaging to find the funds to meet the bill when due. A then draws a bill on B, who accepts it to *accommodate* A, as it is called, and such a Bill is called an *Accommodation Bill.*

The Bill thus created without any consideration, as it is termed in legal language, or in common language without any transfer of goods, may be taken to a banker to be discounted like any other bill: an operation may be performed, and if successful the bill may be paid with the proceeds.

Stated therefore in this way, there is nothing more objectionable in such an Accommodation Bill than in any ordinary Real Bill. The security is just the same in one case as in the other. In the one case goods *have been* purchased, which will pay the bill: in the other case goods *are to be* purchased, whose proceeds are to pay the Bill. (In fact we may say that all Commercial Credit is of this nature, because a Credit is created to purchase the goods whose proceeds are to pay it.) There is, therefore, clearly nothing in the *nature* of this paper worse than in the other, and when carefully used, nothing more dangerous. Cash Credits, which have been one of the safest and most profitable parts of Scotch banking, and have done so much for the country, are all of this nature. They were created without any anterior operation, for the express purpose of stimulating future operations out of which the Credit was to be redeemed. There is, therefore, not anything more criminal, atrocious, and vicious in the one system rather than in the other. Or if there be, the criminality and atrocity must lie in the difference between *have been* and *is to be.*

17. Nevertheless as it is indubitably certain that most of those terrible commercial crises which have so frequently convulsed the nation have sprung out of this species of paper, it does merit a very considerable portion of the obloquy and vituperation heaped upon it. It is therefore now our duty to investigate the method in which it is applied, and to point out wherein its true danger lies.

The security supposed to reside in Real Bills, as such, is as we have seen exaggerated. But there is at least this in them, that as they only arise out of the real transfers of property, the-

number must be limited by the nature of things. However bad and worthless they may be individually, they cannot be multiplied beyond a certain limit. There is, therefore, a limit to the calamities they cause. But it will be seen that with Accommodation Bills, the limits of disaster are immensely and indefinitely extended, frequently involving in utter ruin all who are brought within their vortex.

We shall now endeavour to explain to our readers wherein the difference between Real and Accommodation Paper consists, and wherein the true danger lies.

Let us suppose that a manufacturer, or wholesale dealer, has sold goods to ten customers, and received ten *bonâ fide* trade bills for them. He then discounts these ten bills with his banker. The ten acceptors to the bills, having received value for them, are the principal debtors to the bank, and are bound to meet them at maturity, under the penalty of commercial ruin. The Bank, however, has not only their names on the bills, but also that of its own customer as security. It, moreover, generally keeps a certain balance of its customer's in its own hands, proportional to the amount of the limit of discount allowed. Now even under the best circumstances, an acceptor may fail to meet his bill. The Bank then immediately debits its customer's account with the amount of the bill, and gives it to him back. If there should not be enough the customer is called upon to pay up the difference. If the worst comes to the worst, and its customer fails, the Bank can pursue its legal remedy against the estates of both parties to the bill, without in any way affecting the position of the remaining nine acceptors, who, of course, are still bound to meet their own bills. Even supposing however it is only the acceptor who fails to meet his bill, the Bank would not probably take a second bill upon him, nor would a dealer sell his goods again to him, after giving him the annoyance of having to take up his bill.

In the case of Accommodation Paper there are very material differences. To the eye of the banker there is no visible difference between Real and Accommodation Bills. They are nevertheless very different, and it is in these differences that the danger consists.

In Accommodation Paper, the person for whose accommodation, the drawing, indorsing, or accepting, is done is bound to provide the funds to meet the bill, or to indemnify the person who gives his name. In the most usual form of Accommodation Paper, that of an acceptance, the acceptor is a mere surety, the drawer is the real principal debtor.

Now suppose as before, that A gets ten of his friends to accommodate him with their names, and discounts these bills at his banker's, it is A's duty to provide funds to meet every one of these bills at maturity. There is in fact only one real principal debtor and ten sureties. Now these ten accommodation acceptors are probably ignorant of each other's proceedings. They only give their names on the express understanding that they are not to be called upon to meet the bill: and accordingly they make no provision to do so. If any one of them is called upon to meet his bill, he immediately has a legal remedy against the drawer. In the case of Real Bills then, the Bank would have ten persons, who would each take care to be in a position to meet his own engagement: in the case of Accommodation Paper there is only one person to meet the engagements of ten. Furthermore, if one of ten real acceptors fails in his engagement, the bank can safely press the drawer: but if the drawer of the accommodation bill fails to meet one of the ten acceptances, and the bank suddenly discovers that it is an accommodation bill, and they are under large advances to the drawer they dare not for their own safety press the acceptor, because he will, of course, have immediate recourse against his debtor, and the whole fabric will probably tumble down like a house of cards. Hence the chances of disaster are much greater when there is only one person to meet so many engagements, than when there are so many each bound to meet his own.

We see, then, that the real danger to a bank in being led into discounting Accommodation Paper is, that the position of principal and surety is reversed. They are deceived as to who the real debtor is, and who the real surety is, being precisely the reverse to what they appear to be, which makes a great difference in the security to the holder of the bills. To advance money by way of Cash Credit, or by loan with security, is quite a different

affair; because the bank then knows exactly what it is doing, and as soon as anything occurs amiss, it knows the remedy to be adopted. Moreover it never permits the advance to exceed a certain definite limit; but it never can tell to what length it may be inveigled into discounting Accommodation Paper until some commercial reverse happens, when it may discover that its customer has been carrying on some great speculative operation, with capital borrowed from it alone.

Such appears to us to be the true explanation of the real danger of accommodation paper, which we gave in the first edition of the *Theory and Practice of Banking*, and we may say that in his long and elaborate judgment in the case of the great leather frauds, *Laurence*, *Mortimer*, *and Schrader*, Mr. Commissioner Holroyd quoted this explanation, thereby giving his high authority to its correctness.

In order to explain how such things are possible, it will be as well to notice a delusion which is very prevalent among uninformed writers, namely that Bills of Exchange are paid in money. It is true that Bills of Exchange must always be expressed to be payable in money, but as the reader may see in the preceding chapter, very few bills are really ever paid in money. When a customer has a banking account, the banker discounts his bills by writing down the amount to his Credit, and this Credit is called a *Deposit*. The customer always pays his bills by drawing upon this Credit, and when it gets low the usual practice is for him to discount a fresh batch of bills. Thus in ordinary times, the previous Debts are always paid by creating new Debts. No doubt if the banker refuses to discount, the customer must meet his bill in money, but then no trader ever expects to do so. If his character be good, he counts upon discounts with his banker almost as a matter of right: and therefore to call upon him to meet his bills in money may oblige him to sell goods, &c., at a great sacrifice, or may cause his ruin.

However it is always supposed that the bills discounted are good ones, that is, they could be paid in money if required. Thus though in common practice very few bills are really paid in money, it is manifest that the whole stability of the Bank depends upon the last bills discounted being good ones.

Now let us suppose that for some time a customer brings good bills to the bank, and acquires a good character, and thus throws the banker off his guard: meeting some temporary embarrassment, perhaps, he is in difficulty to meet his bills. In order to get over this difficulty, perhaps he goes to some man of straw, and perhaps for a trifling consideration, gets him to accept a bill without having any property to meet it. He then takes this fraudulent bill to his banker. Thrown off his guard, perhaps, by his previous regularity, the unsuspicious banker buys this bill, and gives him a Deposit for it. This Deposit goes to pay the former bills. In the meantime the rotten bill is falling due, and must be met. The acceptor has manifestly no means to meet it, and the only way to do so, is to create some more of these rotten bills. Now the drawer may be speculating in trade and losing money every day: but his bills must be met, and there is no other way of doing so but by constantly creating fresh rotten bills to meet the former ones. By this means the customer may extract indefinite sums of money from his banker, and give him in return so many pieces of paper! Now when times are prosperous and discounts are low, this system may go on for many years. If traders are in a considerable way of business, they may actually establish a number of sham houses doing a fictitious business for the very purpose of creating these accommodation bills. But at last a commercial crisis comes. The money market becomes "tight." Bankers not only raise the Rate of Discount, but they refuse to discount as freely as formerly; they contract their "issues." All these rotten bills are in the bank and must be met, but if the banker refuses to discount they must be met with *Money*. But all the property which the conspirators ever had may have been lost twenty times over, and consequently, when the crisis comes, they have nothing to convert into money. Then comes the crash! Directly the banker refuses to discount any more bills he finds that he has been paying all his customer's bills for many years with his own money!

This is the *rationale* of Accommodation Paper; and here we see how entirely it differs from Real Paper. Because with Real Paper, and *bonâ fide* customers, though losses may come, still

directly the loss occurs there is an end of it. But with Accommodation Paper, the prospect of a loss is the very cause of a greater one being made, and so perpetually in an ever-widening circle, till at last the canker may eat into a banker's assets to any amount almost. It is also clear that if a man, having got a good character, may sometimes do so much mischief to a single banker, the capacity for mischief is vastly increased, if from a high position and old standing, he is able to discount with several banks, for he is then able to diminish greatly the chances of detection. It would not be suitable to the limits of this work to enter into particular details of these cases, but those who wish to have more information we may refer to our *Theory and Practice of Banking*.

18. From these Accommodation Bills to forged bills there is but one step. It is but a thin line of division between drawing upon a man who is notoriously utterly unable to pay, and drawing upon a person who does not exist at all, or forging an acceptance. In practical morality, and in its practical effects, there is none. Traders sometimes do not even take the trouble to get a beggar to write his name on their bills, but they invent one. The case of traders dealing with a number of small country connections affords facilities for such practices. They begin by establishing a good character for their bills. Their business gradually increases. Their connections gradually extend all over the country. The banker, satisfied with the regularity of the account, cannot take the trouble of sending down to enquire as to the acceptor of every bill. The circle gradually enlarges until some fine morning the whole affair blows up. The ingenuity sometimes exercised by traders in carrying out such a system is absolutely marvellous.

It is in times of speculation in great commodities that Accommodation Paper is particularly rife. In a great failure of the harvest, when large importations are required, and it is expected that prices will rise very high, every corn merchant wishes to purchase as much as possible. But if no sales have taken place there can be no real trade bills. They therefore proceed to manufacture them in order to extract funds from bankers to speculate with. No banker in his senses would actually advance

money for them to speculate with, with his eyes open. Nevertheless, they must have the funds from the bankers, and this they do by means of cross acceptances, which they go and discount with their bankers. They then perhaps buy a certain amount of corn, or any other goods, and many bankers will discount their bills with the collateral security of the Bill of Lading. And this they may repeat many times over, till the quantity of credit created is something astonishing. In the Crimean War there was a great demand for shipping, and there was an enormous amount of accommodation bills manufactured by the Liverpool shipowners and discounted all over the kingdom. The results were frightfully disastrous.

The insurmountable objection, therefore, to this species of paper, is the dangerous and boundless facility it affords for raising money for speculative purposes. And there is much reason to fear that this pernicious system prevails to a much greater extent than is generally supposed. The Legislature has imposed bounds upon the issue of Notes by banks, but there is much greater reason that some attempt should be made to curb the extravagant magnitude to which this detestable practice has been developed. The Bank of England is strictly forbidden to issue a single £5 note of accommodation paper, and is it to be tolerated that any set of adventurers may set afloat many hundred thousand pounds' worth of their accommodation paper?

To deal however legislatively with Accommodation Paper, is the most perplexing commercial problem of the day. The difficulty consists in determining what is really an Accommodation Bill. An Accommodation Bill is defined to be a Bill to which the acceptor, drawer, or indorser, as the case may be, has put his name, without consideration, for the purpose of benefiting or accommodating some other party, who is to provide for the bill when due. But the whole difficulty turns on the *consideration*. The consideration may be of many sorts, and does not by any means denote a sale of goods at the time. Moreover, a bill may be an Accommodation Bill at its creation, but if any consideration be given during the period of its currency it ceases to be an Accommodation Bill.

Moreover the consideration may be of many sorts. If A

draws a bill upon B, who accepts it for A's accommodation, for the express purpose of enabling him to go to the Bank and get money for it, that is a pure Accommodation Bill, and manifestly fraudulent. But if B draws an exactly similar bill at the same time on A, and A accepts it for the accommodation of B, then neither of the Bills are Accommodation Bills; but both are given for a good consideration.

This perhaps may seem somewhat strange to an unlearned reader: it is nevertheless firmly established law. In *Rolfe* v. *Caslon* (2 H. Blackstone p. 571) A and B being desirous to accommodate each other, each drew a bill upon the other, and accepted one in return, the two bills being precisely alike, in the date, sum of money, and times of payment—neither party having any effects of the other in his hands. The Court were clearly of opinion that the two bills were mutual engagements constituting on each part a Debt, the one being a consideration of the other. This doctrine was repeated and confirmed in *Cowley* v. *Dunlop* (7 T.R. 565) in which GROSE, J. said the instant the bills were exchanged each was indebted to the other in the sum which was the amount of their respective acceptances, for the counter acceptances were a good consideration to found a Debt upon either side respectively. In the case of a single accommodation acceptance there is no debt to the acceptor; the Debt accrues only by payment of the money. The acceptor, *quà* acceptor can never be a Creditor: his acceptance imports the admission of a Debt from him to another, and when he has paid as acceptor, if he paid for any other person in consequence of any request from that other, he becomes a creditor, not on the face of the bill, but by a contract collateral to the bill. When two persons exchange acceptances, each becomes the debtor of the other upon his accepted bills. But when a man accepts without consideration, he is never a creditor of the person for whom he accepts till he pays: from that payment arises the Debt, but when the acceptance was exchanged, the debt arises from these acceptances. This doctrine was repeated and confirmed in subsequent cases when it was adopted by the whole Court of King's Bench.

Stated in the above form, no doubt, the doctrine may appear somewhat startling to some: but when we consider the principle

and not the accidental circumstance that the persons who may do it are insolvent, the difficulty disappears. It is just what happens every day in banking. It is by no means unusual for the customer of a banker to ask him to discount his promissory note. If the banker does so, and gives him a Deposit, or Credit, or his own Notes, this is an exchange of securities. It is precisely the same in the other case. Supposing that the holders of these bills are enabled to purchase goods with them, they may be paid off at maturity: if they cannot do so then the re-exchange of the securities is the mutual payment of each Debt, precisely in the same manner as when two bankers exchange notes: or as when a merchant pays his own acceptance to a banker in the banker's notes. The two contracts are extinguished.

On the TRANSFORMATION *of* TEMPORARY CREDIT *into* PERMANENT CAPITAL.

19. We have now to give an example of the use of Credit which may surprise our readers, and of which we have not seen the slightest notice any where else.

Sixteen hundred years ago Diophantus said "*Defect multiplied into defect gives existence.*" That is $- \times - = +$. So also Roman Law said—"Qui obligatione liberatur videtur cepisse quid;" as Von Savigny and all the Civilians say—"The Release of a Debt is in all cases the Gift of an equal amount of Money."

Thus in Commercial Algebra a *Release from a Debt* is in all cases absolutely equivalent to a *Payment in Money*, in strict accordance with the principle that $-\times-$ is always equivalent to $+\times+$.

When it is published to the world that the Bank of England has a paid up Capital of £14,000,000, and that the various Joint Stock Banks of London have paid up Capitals of these magnitudes—

	£
London and Westminster Bank . . .	2,000,000
Union Bank	1,200,000
London Joint Stock Bank	1,200,000
London and County Bank	1,000,000

and many others of lesser amount, most persons except those very few who are conversant with the mechanism of banking, believe that these Banks have those sums paid up in hard money.

This however is a complete delusion. These banks never had anything like these sums paid up in money. Of course it is utterly impossible for any one to tell how much was ever paid up in money: but we believe we are safe in saying that not the half of these sums was ever paid up in money. At least half these gigantic sums of so called paid up Capital are nothing more than *the* BANK'S *own* CREDIT *turned into* CAPITAL.

In order to understand how this was done, we must explain how the Capital of the Bank of England was increased in 1697. The first subscription of £1,200,000 was paid up in money, which was all advanced to Government. In 1696 the Bank stopped payment, and its Notes fell to a discount of 20 per cent. In order to restore public Credit, Parliament in 1697 determined to increase the Capital of the Bank. But no part of the increased Capital was paid up in Money. In pursuance of this Act £800,000 were paid in Exchequer tallies, and £200,000 in the Bank's own depreciated notes which were taken at their full value in cash. Thus at the first augmentation of Capital, £200,000 of the CAPITAL consisted of its own Depreciated Notes or CREDIT. And the Bank was authorised to issue an amount of Notes equal to the amount of this increase of Capital.

Precisely the same thing was done by the Bank of Scotland. In 1727 it increased its Capital. The subscription was paid up partly in the Bank's own notes. An outcry was made against this, but the Directors justly answered—"But the objectors do not at all consider this point, for the payments are many of them made in specie, and bank notes are justly reckoned the same as specie when paid in on a call of stock, because, when paid in, it LESSENS the DEMAND on the Bank."

Thus the Directors clearly understood that the *Release of a Debt* is in all respects equivalent to the *Payment of Money*. The Bank had issued its Notes. They were obligations, and the Bank was debtor to the holders of them. When the subscription was opened the subscriber might either *pay Money*, or *release* the bank from its *Debts*, and the two operations were absolutely

equivalent; and hence we see that at every fresh increase of Capital, a certain quantity of the Bank's own Temporary Credit is turned into permanent Capital.

Thus the Parliament of England and the Directors of the Bank of Scotland from their own practical Commercial instinct, treated the *Release of a Debt* as equivalent to a *Payment in Money*: strictly in accordance with the doctrines of Roman Law, and the principles of Algebra.

Such are the methods by which the Capital of a Bank which issues Notes may be increased; but the Capital of a Bank which does not issue Notes may be increased by similar means. The essence of Banking, we have seen, is to make advances by creating Credits, or Deposits. Suppose that the Bank wishes to increase its Capital, and its customers wish to subscribe. They may either pay in Money, or give the Bank a cheque on their account. This is exactly the same thing as paying the Bank in its own Notes. It is the *release of a Debt*: and that Debt released then becomes increase of Capital. This is the way in which the Capital of all Joint Stock Banks is increased.

Similarly when large public loans are contracted for, a very large portion of them is always created by means of Credit. The customers of a Bank wish to subscribe to a loan: and they bring it a batch of bills to discount. They draw Cheques upon the Credits, or Deposits, created on the discount of these bills. These Cheques may be paid into the Credit of the great contractors at their bankers, and transferred an indefinite number of times, without ever being required to be discharged in money: they may in fact be discharged by being cancelled against other Credits.

CHAPTER VII.

THE THEORY OF THE EXCHANGES.

1. An "Exchange" in commerce is where a person pays his Creditor by transferring to him a Debt due to himself from someone else.

Thus the ordinary case of a person paying a debt by means of a Bank Note or Cheque, is an "exchange." It is what is called *Novatio* or *Delegatio* in Roman Law.

Two passengers are travelling in an omnibus. The fare is sixpence. One passenger pays the conductor a shilling. The conductor is then indebted to him in sixpence. The other passenger has a sixpence in his hand ready to pay his fare. The conductor, by a nod, tells him to give the sixpence to the first passenger. By this means the conductor's debt is paid without the trouble of the second passenger handing his sixpence to the conductor, and the conductor then handing it to the first passenger as payment of the Debt due to him. The whole transaction is an "Exchange."

Three parties and two Debts, are thus necessary to an exchange. We shall show presently that it is very common to have four parties. The "Exchanges" is that branch of Banking which treats of the remission and settlement of Debts between different places by Paper Documents, and the exchange of the money of one country for that of another. They are merely an exemplification of the Doctrines of Coinage and Credit which have already been explained.

2. When the coins of one country are carried to another their value is estimated solely by their weight and fineness as bullion. Though the natives of the country it belonged to, from long habit and association of ideas, see in it a certain denomination,

and may receive it at its nominal value long after it has lost its legal weight, a foreigner sees in it nothing but so much bullion. When a person takes the coin of one country to another, and purchases the coin of that country with it, he is said to *exchange* it. Now suppose that the coinage of two countries is of the same metal and that both coinages are at their full weight and fineness: then if either of them be taken as the standard which may be called A, then the number of units, or parts of a unit of the coinage of the other, which may be called B, which contains precisely the same quantity of pure metal, is called the *Par of Exchange* between the country A and the country B. Thus if the legal standard of France and England were gold, and the Pound be taken as the standard unit of England, the number of the standard units of the French coinage which contain precisely as much pure gold as the English pound would be the Par of Exchange between England and France. There is as nearly as possible one-fourth more pure gold in a Sovereign than in a twenty franc piece, called a Napoleon. Therefore we might say that 1·25 is the gold Par of Exchange between England and France. The French Exchanges however are expressed in francs, which is a silver coin. Hence if the Sovereign contained exactly one-fourth more gold than the Napoleon, we should say that 25· was the Par of Exchange.

If the English coinage of sovereigns became worn, clipped, and degraded, they would not exchange for so many francs as they would do if they were of full weight: an English sovereign might perhaps only exchange for 22 francs: and this would be called a *fall in the foreign exchanges*: or if an English merchant were bound to pay his creditor in Paris 2,500 francs, he would have to give *more* than £100 to purchase them, and the exchange would be said *to be so much per cent. against England*, by the amount of that difference.

It is evident that this adverse state of the exchange would continue so long as the English coinage remained depreciated: but that if it were restored to its legal standard, that restoration would be itself sufficient to restore the exchange to its usual rate. Hence we see that if any country maintains its coinage of full weight and purity, *a Depreciation of the Coinage of England*

necessarily produces an apparently adverse state of the Exchanges, and that a reform of the English Coinage is sufficient by itself to restore them to their proper state.

It is also evident that a Depreciation of the Coinage, by a debasement of its purity, will produce exactly the same effects. It is also clear that if the Coinage of both countries was equally degraded, the Rate of Exchange between them would not be altered, and that the Rate would vary just in proportion as one was more or less degraded than the other.

When the Coinage of a country has become depreciated either from wear and tear, or a debasement of the standard, the consequence is said sometimes to be a *fall* in the Foreign Exchanges and sometimes a *rise* in the Foreign Exchanges, and it is well to fix clearly what these expressions mean, as it might seem that they are contradictory, when they are not so. They only refer to two different methods of estimating the Coinage.

When a Depreciated Coinage is said to produce a FALL *in the Foreign Exchanges, it means that a given amount of Home Coinage will purchase a* LESS *amount of Foreign Coin.*

When a Depreciated Coinage is said to produce a RISE *in the Foreign Exchanges it means that a* GREATER *quantity of Home Coinage is required to purchase a given amount of Foreign Coin.*

A clear understanding of these expressions will prevent any confusion arising when they are used indiscriminately, as they often are, in discussions on the Exchanges.

It is also evident that there can be no fixed Par of Exchange between two countries which do not employ the same metal as their legal standard: because their market values are constantly varying from causes quite beyond the reach of any law: and it is no more possible to have a fixed price of one in terms of the other, than to have a fixed legal price for wheat or any other commodity. The very same rule must also apply to two countries, one of which uses gold, and the other silver, as the measure of value. The only correct mode of expressing it is, therefore, to say that such is the *usual Rate of Exchange* between them.

Although when the Coinage is in a depreciated state, the

exchange will be apparently adverse with these countries which maintain their Coinage in its standard state, it is quite clear that the exchange founded upon the commercial operations of the two countries may be above, below, or at Par: and it is very easy to discover its true state.

The Rate of Exchange which arises out of the state of the Coinage is called the *Nominal* Exchange; the Rate which arises out of the commercial operations of the country is called the *Real* Exchange.

To take an example. Suppose the Exchange on Paris is 2,521 francs for £100 in gold at the Mint Price: or when the Coinage is at its full legal weight. Then suppose that in consequence of the Depreciation of the Coinage, the Market Price of gold bullion rises to £4 3*s.* per oz.: then the Market Price of £100 is £106 11*s.* 7½*d.* Now suppose the Exchange on Paris is 23·80, or £100 will purchase 2,380 francs, then £106 11*s.* 7½*d.* would be able to purchase 2,536·36 francs. But as the real Par at the Mint Price is 2,521, it is evident that the difference between these two sums is the extent to which the Real Exchange is in favour of London. We can also see to what extent the Exchange is depressed, because £100 at the above exchange will purchase 2,380 francs, whereas they ought to purchase 2,536·63 if they were of full weight: and the difference between these two sums shows the extent by which the Nominal Exchange is depressed. Hence we have the following rule—

Find the Market Price of the sum in London compared to the Mint Price: multiply the Market Price so found by the Rate of Exchange: then if the result be equal to the Par of Exchange, the Exchange is at par: and if there be a difference, the Exchange is favourable or adverse, according as the difference is above or below the par.

And the depression of the Exchange caused by the Depreciation of the Coinage, is the difference between the sum so expressed in the Mint and Market Prices multiplied by the Rate of Exchange.

In the excellent state in which our Coinage now is, the question of the Nominal Exchange, so far as regards this country, is of little importance; but it is essential as regards several

foreign countries which use an inconvertible and depreciated Paper Currency.

On the Nature of an EXCHANGE.

3. We will now show how the example of the nature of an "Exchange" we began with is exemplified in practice. Suppose two cities, London and Edinburgh. Suppose a trader A in London is debtor to a trader B in Edinburgh for a certain sum: suppose also that a trader B′ in Edinburgh is debtor to A′ in London for an equal sum. Then, in order to pay their debts, A would have to send the money to B: and B′ would have to send an equal sum to A′, thus causing two separate transmissions of bullion between London and Edinburgh, at some expense for freight and insurance.

Now this settlement of debts may be greatly facilitated if A in London goes and pays his debt to A′, and buys from A′ the debt due to him from B′, and sends this debt by post to B in Edinburgh. B then goes to B′ and demands payment from him of his debt due to A. Thus it is clear that the whole business has been settled by the transmission of the debt, instead of by the transmission of twice the amount in bullion, and each debtor has paid the debt to the creditor in the same town.

The whole transaction is called an "Exchange;" and it is clear that there must be a debtor and a creditor in each city. In the case given there are *four* parties: but it may be done by *three* parties. Suppose A in London has a debt due to him from B in Edinburgh, but at the same time owes B′ an equal sum. To pay his debt to B′ he has only to give him an order on B, and the accounts between the parties are adjusted without any transmission of bullion.

When the debts between London and Edinburgh are equal, they may all be discharged by means of such an exchange, without sending any specie. The exchanges are then said to be at PAR.

Supposing, however, that the debts are unequal, and Edinburgh wishes to send more money to London than it has to receive, it is clear that the demand for bills is greater than the

supply: and as every one would rather send a bill than cash, as it is cheaper to do so, those who had to send money would bid against each other for the bills in the market as for any merchandise, and the price of them would rise, as a premium would have to be paid for a bill on London.

London is the great centre of commerce. It is the seat of Government to which the revenue is remitted from all parts of the country: the great families from all parts of the country go to reside there, and their incomes must be remitted to them there: hence there is always a much greater quantity of money seeking to flow from the country to London than the contrary: consequently the demand for bills on London in the country is greater than the supply; and, therefore, inland bills upon London are always at a premium.

This premium is computed by time. If a person wants a bill at sight on London he must pay 1*s.* per cent., or four days' interest. This is called the Time Par of Exchange, between Edinburgh and London. There is a similar premium on bills, or par of Exchange between all other towns in the country on London. This is called Inland exchange.

The exchange of the country upon London is said to be in favour of London, and against the country. But it must be observed that it is only unfavourable to the *buyers* of bills, or those who wish to send money. It is equally favourable to the *sellers* of bills or those who have to *receive* money.

It appears from this that when in any place the demand for bills is greater than the supply, the Exchanges are *adverse* to that place, because it has more money to pay than to receive: when the supply is greater than the demand, the Exchanges are *favourable* to it, because it has more money to receive than to pay.

On Foreign Exchange.

4. The principle of Foreign Exchange is exactly the same as that of Inland Exchange. But there is somewhat more complication in the detail, on account of the different moneys of different countries.

In Exchange between two foreign places and of different

moneys, the money of one place is always taken as fixed, and the Exchange is reckoned in the variable quantities of the money of the other given for it. The former is called the *fixed* or *certain* price, and the latter the *variable* or *uncertain* price.

Thus between London and Paris the £ is the *fixed* price and the Exchange is reckoned in the variable sum in francs and cents given for it.

On the contrary, between London and Spain the Exchange is always reckoned by the *variable* sum in pence given for the fixed dollar of exchange.

When a certain place is taken as a centre, if the fixed price is the money of that place it is said to *receive* the variable price: on the contrary when the money of that place is the variable price, it is said to *give* the variable price.

Thus at any time London *receives* from Paris so many francs and cents for the £1 sterling; and London *gives* Spain so many pence for the dollar.

In the quotation of the Rates of Exchange it is usual to omit the fixed price, and name only the variable price, and then that is called the *Rate* or *Course of Exchange*.

According to *Tate's Modern Cambist* the following are the present Rates of Exchange between London and the principal Foreign cities—

London receives from

Amsterdam	11·19 Florins and stivers	for £1.
Germany	20·43 Imperial marks and pfennigs	„ 1
France, Italy, Belgium, Switzerland	25·30 Francs or lire and cents.	„ 1
Austria	10·35 Florins and kreuzers	„ 1

London gives to

Lisbon	53¼ pence sterling for	1 Milreis.
Spain	50¼ „ „	1 Hard dollar.
Gibraltar	40⅜ „ „	
St. Petersburg	37⅛ „ „	1 Silver rouble.
Rio Janeiro	26½ „ „	1 Milreis.
New York	49½ „ „	1 U. S. dollar.
Calcutta	23 „ „	1 Government rupee.

The above are the Mint Par Rates: but in Austria, Italy, and the United States, these Rates are deranged by the Paper Money of each country: at the present moment the Exchange on Italy is about 29·50: on Austria about 11·50: and on New York about 45·.

Now if the Exchange of London on Paris is against London, or the demand in London for bills on Paris is greater than the supply, it is clear that the £ sterling will purchase fewer francs. Hence between London and Paris when the exchange is adverse to London the Rates of Exchange will *fall below* par.

On the contrary, when the Exchange is favourable to London, that is the supply greater than the demand, the Rate of Exchange will *rise above* par.

And the same is manifestly true with respect to all other places *from which* London *receives* the variable price.

But if the Exchange between London and Spain is against London, or the demand in London for bills on Spain is greater than the supply, then London will have to *give more* pence to purchase the Spanish dollar.

Hence between London and Spain, when the Exchange is against London, the Rate of Exchange will *rise above* par.

On the contrary, when the Exchange is favourable to London, she will have to give *fewer* pence to purchase the Spanish dollar, and consequently the Rate of Exchange will *fall below* par.

And the same is manifestly true with respect to all other places *to which* London *gives* the variable price.

Hence when the Exchange between London and any other place varies from par, we must always consider whether London gives the variable price to, or receives it from, that place.

The interests of the buyers and sellers of bills are always opposite. If the Rate of Exchange is favourable to the one, it is equally adverse to the other. The buyers of bills are also called *remitters*, and the sellers are also called *drawers*.

On the LIMITS *of the* VARIATIONS *of the* EXCHANGE.

5. Supposing that while the Exchange between any two places—say London and Paris—is in a state of equilibrium,

that is, when the demand and supply of bills in each city is exactly equal, so that they would each have to receive and send the same sum, it should happen that from any cause whatever, no matter what, there should be a desire on any particular day to send more money from one side than it has to receive. Suppose more money has to be sent from London than it has to receive: then those merchants who want to remit money from London will strive to buy bills on Paris in the London market. But as the demand is greater than the supply, a competition will spring up to buy the bills which are in the market, and hence the price of them will rise. It is their duty to place the bullion in Paris at their own expense and risk, and consequently, they would rather give somewhat more for a bill than its par price, to save themselves that expense. But they will not give more than the cost of transmitting the bullion itself, because, if the price rose higher than that, they would send the money. Thus when the Exchange in London rises against London, or in the case of Paris, falls below par, it shows that London wishes to send to Paris more than it has to receive, and the exchange is said to be against London: but it is clear that it cannot continue at a greater rate against London than the cost of transmitting bullion. Hence this is manifestly a superior limit to the variation of the Real Exchange.

But the reverse case may also happen. The supply of bills in London on Paris may exceed the demand. The price of them will therefore manifestly fall. But for similar reasons, the cost of transmitting bullion will be an inferior limit below which the price will not fall.

We thus see that the state of the Exchanges arising out of the cross remittances of money is a simple example of the general law of supply and demand: with the limitation that the variation in the Rates of Exchange cannot exceed a certain definite sum, namely, twice the cost of sending bullion from one place to the other.

These Limits of the Rate of Exchange are called *specie points*, because when the Exchanges reach them, bullion may be expected to flow in, or out, as the case may be.

It is to be observed, however, that these limits of the

variations of the Exchange, or Specie points only apply to bills payable at once, and to long periods. During short periods, and for bills which have some time to run, temporary causes may produce fluctuations in the Exchanges greatly exceeding these limits.

On the Effects of an Inconvertible Paper Currency on the Foreign Exchanges.

6. We must now consider the effect of Paper Money, or an Inconvertible Paper Currency, on the Foreign Exchanges and the Market Price of bullion. So long as Paper is convertible, that is, so long as the holder of it has power to demand payment of it at sight, it is very clear that it cannot circulate at a discount, because, if it fell to a discount, every person who held it would immediately go and demand gold for it. But if while it is in circulation, the power of convertibility is taken away, then it becomes, in all respects, equivalent to a new standard, just as much as gold and silver, and its value will be affected by the same principles, *i.e.* by the sole question of the quantity of it in circulation, compared to the operations it represents.

Under the old system of attempting to fix the price of gold and silver relatively to each other, there was no power of convertibility of one into the other similar to the convertibility of the note. If silver fell to a discount as compared with gold, no person could demand as a right to have their silver exchanged for gold: consequently the inevitable result of a considerable change in the quantity of either metal was a change in their market values. Thus in 1794, gold rose to 84*s.* if purchased with *silver* bullion: now if, speaking by analogy, the silver coin had been convertible into gold, the difference never could have arisen, any more than a bank note, convertible at the will of the holder of it, could circulate at a discount.

Now Paper, when issued as a substantive Coinage, follows exactly the same rules: if only the usual quantity of it is issued, *i.e.* no greater quantity than would have been issued if it were convertible into specie, it will continue to circulate at

its par value; but if these issues be continued, and if it be deprived of the natural corrector of an over-issue, *viz.* payment on demand, and it is maintained in circulation, exactly the same result follows as attends an excessive issue of silver—it falls to a discount.

Now the silver coin may fall to a discount from two circumstances: either if silver be coined with too great profuseness, the excessive *quantity* of it will *diminish its value*, even though the coin be of full weight: or if the silver coin be suffered to fall into a degraded state by clipping and wearing, so that it does not contain the full legal weight of bullion, it then becomes *depreciated*. The apparent result in figures will be just the same in either case: guineas will rise to 24*s.* or 30*s.* But as silver has general value, and is, from its qualities, a recognised measure of value, it is not correct to apply the term *depreciation* to it as long as the coin contains its full legal weight of bullion. But the case is different with Paper: it is only received on account of bearing a promise to pay a certain quantity of bullion on the face of it: and if it is not able to fulfil that promise it is *depreciated*.

Now if, for the public convenience, it is deemed advisable to issue Paper Money, or an Inconvertible Paper Currency, the only way of maintaining its currency at par is by limiting its quantity. We do not mean by this by limiting its quantity to an absolute fixed amount, but by devising some means whereby *a greater quantity of it shall not be issued than if it were convertible into gold*. If more than this be issued, it will be followed by the same result as attends an excessive issue of silver, it will fall to a discount, which in this case is *depreciation*: and the necessary consequences of a Depreciated Currency will follow, viz. the Market Price (or Paper Price) of bullion will rise above the Mint Price and the Foreign Exchanges will fall.

Now if such a state of things happens, the proper remedy is to *diminish* the quantity of the Paper in circulation until the Market Price of bullion is reduced to the level of the Mint Price. If the power of demanding five sovereigns be taken away from the holder of a £5 note, still if he can purchase bullion with it in the market to the amount of five sovereigns, it is of course a

proof that the Note is current at par: and the limitation need not proceed beyond that. But if this be not done the next best thing is to allow all persons to receive the notes at whatever value they choose to put upon them: and to let them make a difference, if they choose, between the prices of articles when paid in gold or in paper. If this be allowed no very great inconvenience will take place in the internal trade of the country. It is entirely by adopting judicious measures to limit the quantity of notes in circulation that the Bank of France has preserved its notes at par although they are inconvertible.

But suppose that the law makes it a crime to make a difference between paper and gold and a punishable offence to give twenty pounds in gold for twenty-five pounds in paper—what will be the consequence? Exactly the same as we have seen happen when the silver and gold coins were improperly rated, the *one which was underrated disappeared from circulation.* This has happened both in the case of gold coin and silver coin. Now when Paper Money is issued in too great abundance, and has a tendency to overflow the channel of circulation, its natural effect is to raise prices when paid in it. If people were free in their transactions, they would gradually make a difference in price between payments in paper and payments in bullion: but if the owners of the coin are prevented by law from receiving more for it than the same nominal sum in paper, they will do exactly the same thing as is invariably done when in a metallic currency, part is depreciated and part is of full weight—they will either hoard or export it. At all events it will disappear from circulation. As the gold gradually disappears and Paper issues multiply, people begin to estimate all prices by the Paper price, and the Paper ends by finally displacing the entire gold Coinage.

The convertibility of the Coin into the legal amount of bullion is the test of the depreciation of the Metallic Currency: so the convertibility of the Note into Coin is the test of the depreciation of the Note. When Paper becomes the standard of Currency the Market Price of bullion means the Price of it paid in Paper Money, or the Paper Price of it, and it is clear that if the Paper Price of bullion rises above the Mint Price it is the *proof and the measure of the Depreciation of the Paper Currency.*

Whenever the Currency of a country becomes redundant, that is to say when prices are raised so much higher in one country than in its neighbours, that the value of money sensibly diminishes, the natural corrective for such a state of things is to take a certain portion of it out of circulation, so that by diminishing the quantity of it its value may be raised. When people find that the same quantity of gold will not purchase an equal amount of commodities in this country as they will in another, their own natural instincts will lead them to purchase commodities abroad where they are cheap, and bring them for sale here where they are dear. The natural instincts of trade will, therefore, produce an equilibrium in value in the currency of neighbouring countries.

When the Currency of a country consists partly of paper and partly of gold and silver, it is quite clear that only the metallic portion of it can be exported in payment of foreign commodities. The paper portion of it, which has no value abroad, must remain at home. If the issues of paper be continued so as to prevent the Currency from recovering its value, the process of the exportation of the metallic portion will go on until it is entirely exhausted. If this be the case, the only method of restoring the Currency to its par value is by diminishing the quantity of the paper, until the drain is stopped by the enhancement of the value of the whole Currency. Some persons used to maintain that as the gold goes out, paper should be issued to supply the vacuum until the gold comes back. But it requires little sagacity to see that if that be done *the gold never will come back again*, and the drain will not cease until it is totally exhausted, and the only way to bring it back again is to raise its value at home, which can be done only by removing the plethora of paper.

We have seen that with bullion, the Rate of Exchange can never continue very long above or below the cost of transmitting bullion: but the Nominal Exchange can vary to any amount according to the Depreciation of the Coinage. The very same effect follows an excessive issue of Paper Money; and it may fall to any amount of Depreciation. And just as the rise of the Paper Price of bullion above the Mint Price shews the Depreciа-

tion of the Paper, so the same thing will manifestly cause a fall of the Foreign Exchange below the limits of the Real Exchange.

On Exchange Operations.

7. Exchange operations consist in buying, selling, importing and exporting bullion, called "Bullion Operations," and buying and selling Bills, called "Banking Operations."

The calculations necessary to ascertain the profit and loss on such operations are given at length in various technical works on the subject, to which we must refer any of our readers who are practically concerned in such matters. Our object only is to examine the general causes which produce these movements of bullion which so sorely vex the banking and commercial world.

Exchange operations of both sorts may be either direct or indirect: that is they may take place directly between the two countries, or the final operations may be effected through the medium of one or more intermediate countries.

We have observed that for bills payable at sight the limits of the variations of the Exchanges cannot exceed the cost of transmitting bullion, which are called the specie points, because when they are reached, bullion may be expected to flow in or out.

When the bills however have a considerable time, such as three months or more, to run, before they are payable, causes may operate which may produce *temporary* fluctuations of the exchange considerably beyond these limits. These are chiefly—

1. The necessity that the holders of these long dated bills may have to realise them, even at a considerable sacrifice, to maintain their own position.

2. The doubtful position of the acceptors, or the general discredit of the place they are drawn upon.

3. The differing relative values of the precious metals which are the standards of payment at each place.

4. The respective Rates of Discount at each place. Now it may very often happen that from these combined causes, it may be considerably more profitable to possess bullion at one place

than at another. Whenever this is the case, Exchange operators export bullion from one place to another for the sake of the profit. They CREATE bills upon such a place. They draw upon their correspondents, discount their bills, and remit the proceeds to meet their drafts when due.

It used to be the dogma of many commercial writers that bullion is only exported to discharge a previous state of indebtedness, and that, consequently, a drain of bullion comes to a natural end when the indebtedness is discharged. But this is a most grievous error. The sufficient difference of profit in possessing bullion at two places *will cause a fabrication of bills for the purpose of exporting bullion*, without any previous indebtedness: and of course this will continue as long as this possibility of profit exists. Consequently *unless this profit is destroyed, the drain of bullion will not cease. The effectual way of annihilating this profit is by* RAISING THE RATE OF DISCOUNT.

It is manifest that in such operations, the difference of profit between the two places must exceed twice the cost of transmitting bullion, because in such cases, the cost of transmitting bullion both ways will fall on those who originate them.

Between countries in which there are no restraints on trade, the exchanges will never vary much except on some sudden emergency: but there are countries with which, owing to the prohibitive laws which infest their commercial codes, the exchanges are permanently unfavourable, because they will take nothing but bullion for their commodities. Russia is one of these countries, and hence if not modified by other circumstances, bills upon Russia would always be at a premium: but here again the effect of trafficking steps in, which always has a tendency to equalise prices. The merchant (as we may call him) who deals in bills acts upon the same principles as the dealer in any other commodities: he buys them where they are cheapest, and sells them where they are dearest. Hence he will try to buy up Russian bills cheaper in other exchanges, or debt markets, and sell them in the London debt market. On the other hand from the course of trade between England and Italy, the debt which Italy owes to England is usually greater than the contrary: hence Italian bills will usually be at a discount, or cheap, in the

London debt market. So the bill merchant buys them up cheap here, and sends them to some other market—Paris for instance—where they may be at a premium. By these means the price of bills is raised where they are cheapest and depressed where they are dearest: and the general result will be to melt all the differences between separate countries into one general result, so that the exchanges will not be favourable with one country and adverse with another, but they will be generally adverse or favourable with all the rest of the world.

Supposing, however, a merchant has to remit money to Paris, while the exchange with Paris is unfavourable to England, he may possibly discover a more advantageous way of remitting it than by buying a bill on Paris directly. Thus for instance, while bills on Paris are at a premium in London, those on Hamburg may be at a discount, and bills on Paris may be at a discount in Hamburg. So if the merchant buys a bill on Hamburg and sends it to his agent there, and directs him to purchase a bill on Paris with the proceeds, he may be able to discharge his debt in Paris at a less sum than he would have to pay for a bill on Paris in London. This circuitous way of settling his debt involves additional charges for brokerage, commission, postage, &c., but the effect of it is still further to equalise the exchanges between London and all other countries. This circuitous method is called the *Arbitration of Exchanges*, and the sum which is given in London for the ultimate price it realises in Paris is called its *Arbitrated Price*. When only three places are used in such an operation it is called *Simple Arbitration*. When more than three are employed, it is called *Compound Arbitration*. The practical rules for working out these results will be found in any technical book on the subject. But it is very evident that the quicker, safer, and cheaper the communication between countries becomes, the less room will there be for such operations, because the Limits of the variations of the real exchanges, which are the margin which renders such transactions possible, will constantly diminish.

The scale on which these indirect operations of exchange is carried on is immense, and peculiarly affects the London exchange. There is no exchange between places to and from

which remittances have not constantly to be made. Hence, when such places trade, their accounts must be settled by means of drafts upon some third recognised centre. London is the banking centre of the world. From the enormous exports of England to all quarters of the globe, remittances have to be made to London from every part of the world. There is, therefore, a constant demand for bills upon London to discharge the debts incurred for these commodities. Hence although the exporters may send their goods to different countries, yet if they can draw upon London, their bills will be sure to find some purchasers somewhere to be remitted to England. Hence bills upon London bear a higher price, and meet with a readier sale than those upon other places.

One country A may import from another B less than she exports, and consequently a debt is due from A to B. Also B exports to another country C more than she imports: and consequently a debt is due from C to B, and A may discharge its debt to B by transferring to it its claim against C.

As many countries trade with one another between which there is no exchange, their claims are mutually adjusted by drafts upon London, the commercial centre. Hence the London exchange is the most important in the world, and requires the greatest attention to be paid to it.

There are Arbitrated prices of bullion in the same way as there are Arbitrated rates of exchange, but we need not enter into them here.

On the Real *or* Commercial Exchange.

8. We must now consider the Real or Commercial Exchange, which arises out of the transactions between this and other countries. As the British Islands do not produce the precious metals to any extent worth considering, they are only to be obtained in this country by importation, and we must now consider the various sources from which they come, and the different causes that produce an inflow or outflow of them. They are to be treated in every other respect like any other

foreign commodity, and are obtained by the same means as any other one which we require for domestic consumption, which is not a native product.

The trade in bullion may be divided into two distinct branches: the one where it is carried on directly with the countries in which gold and silver are native products, and the other with those countries which do not produce it, but which, like our own, have no means of supplying themselves with it except by foreign commerce.

I. *With bullion-producing countries.*—Before the discoveries in California and Australia the chief bullion-producing countries were Mexico and Peru. We need not specify others because the same principle applies to them all, and to describe them all would rather belong to a work on commerce generally. British merchants have establishments, or correspondents, in these countries, to whom they consign their goods, and their agents exchange them for bullion brought down by the natives, and which is collected in large quantities, and in former times, before the invention of steam navigation, used to be brought home by men-of-war for the sake of security. In these countries bullion is treated exactly like any other commodity, such as tea, or wool, or wine, or timber, and British goods of all kinds are exported to them for the express purpose of being exchanged for bullion to be remitted home. The limits of this exportation are precisely similar to the limits of the exportation of goods to any other country. It is clear that by the time the bullion reaches this country, it ought to be sufficient to cover the original price of the goods, and all the charges on them on their way out, as well as the agent's commission there, the charges for freight, insurance, and commission for bringing it home, and a fair mercantile profit over and above all these expenses. Unless it does that, the commerce is not profitable. The purchase of bullion then in these countries is a very simple affair, and requires no further notice.

II. *With countries which do not produce bullion.* The causes which produce an inflow or outflow of bullion, between this and other countries like it which do not produce bullion, are much more intricate. Taking this country as the centre,

we may consider that the transmission of bullion to or from it is influenced by the SEVEN following causes—

1. The balance of payments to be made to or by it.
2. By the state of the Foreign Exchanges.
3. By the state of the Currency.
4. By remittances made to this country, as the commercial centre of the world, to meet payments due to other countries.
5. By the political security of this and neighbouring countries.
6. By the state of the Money Market, or the comparative Rates of Interest in this and neighbouring countries.
7. By the free or prohibitive commercial tariffs of this and foreign countries, as they permit or forbid our manufactures to be imported into them.

There are, then, SEVEN different causes which act upon the movements of bullion, and we see at once what a complicated subject the Foreign Exchanges is, because these seven different causes may be acting in all sorts of different ways, in conjunction or opposition; and of course it requires an intimate knowledge of commercial affairs at any particular time to know how they do operate. The inveterate error of mercantile opinion for a long time was, that there is only *one* cause which causes an export of bullion, namely a balance of payments to be made.

It appears that the simplest way of arriving at an accurate knowledge of the subject is to consider that the dealings between nation and nation are only made up of the aggregate of dealings between individuals of the nations, and we have only to consider the variety of methods in which an individual merchant may trade to have a comprehensive idea of the commerce of the nation.

Suppose a merchant of London sends £1,000 of goods to Bordeaux: by the time they arrive there the mere addition of freight, insurance, and other charges, would probably have raised their cost of production, or the expense of placing them there to £1,050. But as the merchant would never have sent them to that market, unless he expected to realise a good profit, we may assume that the market is favourable and that they sell for £1,500, and he would probably draw against his agent for

£1,000. His correspondent at Bordeaux, instead of remitting the money to London, would prefer in ordinary circumstances to invest the proceeds of the goods in some native product, which would fetch a good price in London. The chief native product of that country is *wine*: so the agent would invest the proceeds of the goods, after deducting all charges for freight, commission, &c., in Bordeaux wine, and send it to England. This wine would probably be sold at a considerable profit in the English market,—say it would fetch £2,000: and after deducting all the charges of every description on the cargoes both ways, the difference would be the merchant's profit. In this case it is quite clear that no bullion would pass between the countries, and therefore there would be no question of exchanges.

The London merchant's agent at Bordeaux would be governed by several considerations as to whether he would remit specie or wine to London, and he would be guided chiefly by the state of the wine markets both at Bordeaux and London. For supposing the goods to be sold at a good profit at Bordeaux, he must next consider the price of the wine at Bordeaux, and also what it might be expected to fetch in London. If some great disaster had happened to the vines so that there was a failure of the crops, the price of wine at Bordeaux might rule excessively high; but at the same time there might be a large stock of wine in London, and the price might not be unusually high: so that if he were to purchase wine at Bordeaux, and send it to London, it might be a loss. In such a case as this, if there were no other native product to send, he would find it more advantageous to remit specie, whatever the goods would sell for, and then the exchange would be in favour of London: but before the London merchant could reckon his profits he would have to deduct the freight, insurance, &c., on the specie.

It must be observed however that the example of the product which we have taken, wine, is not a very good one to illustrate the principle, because wine is an article which may be kept for several years before it is used: and the merchant might import the wine, even though it would not pay at existing prices, in the expectation that in process of time the price of it would rise in consequence of the scarcity. An example of a product which re-

quired immediate consumption, would have been a better illustration.

If we suppose that Bordeaux had but one native product—wine—the chances of finding the markets, both at Bordeaux and London, in a favourable state for importing produce instead of specie, would be limited to that single article. But if it had other products, such as olive oil, the chances would be increased of finding articles to suit the market; and the chances would evidently be multiplied according to the number and variety of its products. Hence we see the great importance of having as great a variety as possible in a market, because the more articles there are, *the more chances there are that commercial indebtedness may be settled by products rather than by specie.*

Whether the transaction was profitable or not to the London merchant would entirely depend on the amount of specie he received after deducting all charges: and if he had purchased the goods he sent out from England cheap, and there was a scarcity of them at Bordeaux, he might realise high prices there, which might leave him a good profit. It would be very improbable that he could realise so much profit on that single operation as in the double one of exporting goods and importing wine. So that the import of the specie would be less profitable to him and the nation at large, than the import of the wine.

The reasons which caused the export of specie from Bordeaux, and the import of it into England, in this case, are very plain; they were the scarcity and dearness of the native products at Bordeaux, and the abundant supply of them already in the London market. Hence we gather that THE SCARCITY AND DEARNESS OF NATIVE PRODUCTS IS AN INFALLIBLE CAUSE OF THE EXPORT OF SPECIE FROM A COUNTRY: on the contrary, an already existing abundant supply of products both domestic and foreign is a certain cause of its import into a country; just as people flock to buy in a well stocked and cheap market.

The exchange being in favour of a country means nothing more than that bullion has to be remitted to it. In the case above described, the exchange at Bordeaux would be in favour of London: but this simple case is as good as a thousand to shew the extreme and dangerous fallacy of drawing any con-

clusion as to the advantage of the trade to England, from the simple fact of the exchange being favourable to her, and an inflow of bullion taking place.

The example given above is of the simplest description, and a merchant of eminence, who has correspondents in several different parts of the world, might easily multiply these operations so as to trade with many markets before the returns of his cargo were brought home. Thus instead of having the wine sent home from Bordeaux, his correspondent might find it more profitable to send it to Buenos Ayres, and dispose of it there. The chief native product of that place is hides, and we may suppose that his correspondent there might invest the proceeds of the cargo of wine in hides, which there might be a favourable opportunity of selling in the West Indies. When the cargo arrived in the West Indies, instead of remitting the proceeds directly home, it might very well happen that, owing to a scarcity of corn at home, it might be very high there and cheap in Canada, so he would invest the proceeds of the hides in sugar, and despatch that to Canada, where the merchant's correspondent there would dispose of it, and purchase corn, which he would send to England.

In the case just described, we observe that there are five distinct operations, and, as we may suppose that there is a profit upon each of them, by the time the returns for the goods, which originally cost £1000, are brought to England, it may very well be, that the corn, which forms the ultimate payment of them, may be several times as valuable as the original cargo: and as the charges on each operation are deducted before investing the proceeds in other articles, it is clear that the merchant's profit upon the whole is exactly the difference in value between the articles last purchased and sent home and the original cargo, after deducting all the expenses of sending home the last cargo: and it is also seen that no specie has been sent from one country to the other in the whole course of the extended operation.

There will be no difficulty in considering the reverse case in which the operation is commenced from the foreign country. Suppose the starting point is New York. The staple products

of America are breadstuffs and provisions. A merchant of New York sends a cargo of corn to Liverpool, and his correspondent there will endeavour to invest the proceeds of that in British goods, if he finds the state of the markets in England and New York will make such an operation profitable. Suppose the price of corn is very high here, and British goods are also very high here, and very low in America, it is clear that nothing but specie will be sent. In cases where a great and unexpected dearth of corn occurs in England, and its price rises enormously high, the infallible result is to cause a great drain of specie for the time being, because our necessity for food is much more pressing and immediate than their necessity or capability of consuming our cotton or woollen goods. And *the only way to arrest such a drain is to effect such a reduction in the price of British goods as to make it more profitable to export goods than specie.* And we shall see in the next chapter that it was this precise object which the Bank Act of 1844 was intended to effect.

The varieties of trading described are sufficient to suggest the following rules regarding the inflow or outflow of bullion.

I. The cause of bullion being *imported* is either when the price of goods is so *low* in England and so *high* in the foreign market that foreigners are tempted to send here to buy, or English merchants are tempted to export.

II. The cause of bullion being *exported* from England is that there is some great and pressing demand for some article in this country, and other commodities are so scarce and dear that they cannot be exported with a profit: or that the article is required in such great quantities that the foreigner cannot consume our goods, which we would prefer to send in payment, fast enough: and so specie must be sent; and the greater the difference in price the greater will be the drain of bullion: or that other markets are already overstocked with our products, which are depressed below their usual market value there. This is what is meant by overtrading: and from this circumstance we see that OVERTRADING IS A SURE PRECURSOR OF A DRAIN OF BULLION FROM THE COUNTRY. When there has been a great failure of the crops in this country, so as to cause a famine

price, the demand for corn is so immediate and urgent that it necessarily causes a drain of specie; and it is then of the greatest possible consequence that the prices of other commodities should be as low as possible, to enable them to be sent in payment of the necessary supplies of food, and prevent such a drain of bullion as may disturb the whole monetary system of the country.

Overtrading, and a failure of the cereal crops of this country are each of them sure causes of a drain of bullion. The most disastrous event for the commerce of this country is when both these circumstances happen concurrently. It is like a spring tide of disaster. The monetary crisis of 1847 was brought on by several years of overtrading followed by successive failures in the staple support of the people of England and Ireland.

On the Rate of Discount *as affecting the* Exchanges.

9. We have now to treat of a cause of the movement of bullion which has acquired an importance in modern times far exceeding what it ever did before: in fact it is more important than any other, except a depreciated Paper Currency, viz. a Difference in the Rate of Interest or Discount between two countries. Formerly when the communication was slow and expensive between different places, before the days of railroads and steamers, a considerable difference might exist in the Rates of Discount in two places, without causing a movement of bullion from one place to another. But that is not possible now. The communication between places is so rapid now, that directly the difference between the Rates of Discount in any two places is more than sufficient to pay for the expense of sending the bullion, an immediate flow of bullion commences from one place to another. And this is in exact accordance with the usual mercantile principle which operates in every other case, that if the difference of price of the same article in any two markets is more than sufficient to repay the cost of sending it from one to the other, it will be sent; and this movement will continue as long as the difference in price continues. Now if the Rate of Discount in London is 3 per cent., and that in Paris is 6 per cent., the simple meaning

of that is that gold may be bought for 3 per cent. in London and sold at 6 per cent. in Paris. But the expense of sending it from one to the other does not exceed $\frac{1}{2}$ per cent.; consequently, it leaves $2\frac{1}{2}$ per cent. profit on the operation. The natural consequence immediately follows, gold flies from London to Paris, and the drain will not cease until the Rates of Discount are brought within a certain degree of equality. It used to be the common delusion of mercantile men that gold was only sent to pay a balance arising from the sale of goods, and that it must cease of itself whenever these payments were made. But this is a profound delusion. When the Rates of Discount differ so much as is supposed above, between London and Paris, persons in London fabricate bills upon their correspondents in Paris for the express purpose of selling them for bullion, which they then remit to Paris, and which they can sell again for 6 per cent. And it is quite evident that this drain will not cease so long as the difference in the Rates of Discount is maintained. Moreover merchants in Paris immediately send over their bills to be discounted in London, and have the cash remitted to them. Now the only way of arresting such a drain is to equalise the Rate of Discount in the two places. These simple facts are a perfectly conclusive answer to those writers who complain of the variations of the Rate of Discount by the Bank of England, and suppose that it is possible to maintain a uniform Rate. Consequently at the present day, it is the imperative duty of the Bank of England to keep a steady watch upon the Rates of Discount in neighbouring countries, and to follow those variations so as to prevent its being profitable to export bullion from this country.

On Foreign Loans, Securities, *and* Remittances *as affecting the* Exchanges.

10. Besides the state of national indebtedness, arising out of commercial operations, there are other causes which seriously affect the Exchanges. Formerly England, being more abundant in money and material resources than men, used to subsidise foreign powers to a great extent: and the method of transmitting

such a loan to the best advantage to the remitting country is an operation of considerable nicety and delicacy. An actual and sudden withdrawal of a very large amount of bullion from a commercial country would cause the most disastrous consequences when so many engagements had to be met at a fixed time. When such necessities arise the operation is effected by Bills of Exchange. These events however occur but rarely, and are not the ordinary operations of banking, and therefore to give an account of how they are effected would be beyond the limits of this work. If any readers desire to see practical examples of such operations we may refer them to our *Principles of Economical Philosophy* and *Theory and Practice of Banking*, where some are given, especially the most gigantic one ever effected, the payment of the indemnity by France.

Public Securities however of all sorts, Bonds of Commercial Companies now form a regular article of import and export between various countries, and affect the Exchanges exactly like any other merchandise: but as these all pass through the Post Office, and not through the Custom House, it is impossible to have any record of their quantity: and consequently the subject of the Exchanges is a hopeless puzzle to any persons who only look to the official returns of merchandise published by the Board of Trade.

There is, lastly, to be considered the sums required by residents abroad for their expenditure. The drafts of the great English and Russian families on their bankers at home, affect the exchanges, exactly in the same manner as any other drafts.

On Monetary and Political Convulsions as influencing the Exchanges.

11. As an immediate consequence of the preceding principles it follows that a political or monetary convulsion in any country will immediately turn the Exchanges in favour of that country, if such an event is not prevented by the issue of an Inconvertible Paper Currency. The reason is plain: any political or monetary convulsion is attended by a great destruction of CREDIT. This

Credit, while it existed, performed the functions of Money: but as soon as it is destroyed, there is an intense demand for Money to fill the void. Money rises enormously in value. Multitudes of persons are obliged to sell their goods at a sacrifice. The consequence is that Money, having risen greatly in value, both with respect to Goods and Debts, an immense quantity will flow in from neighbouring countries. Thus in 1799 there was a great commercial crisis at Hamburg. The Rate of Discount rose to 15 per cent. That immediately drained bullion from England. In 1825 there was a great commercial crisis in England. For a considerable period the bank, by making extravagant issues at a low Rate of Discount, had turned the Foreign Exchanges against the country. But no sooner did the crisis occur in December, than the Foreign Exchanges immediately turned in favour of it. Exactly the same thing happened in 1847. No sooner had the crisis in that year fairly set in than the Exchanges turned in favour of the country. And numerous other examples might be cited if necessary.

On the Means of Correcting an Adverse Exchange.

12. The preceding paragraphs shew upon what complicated causes those great movements of bullion depend which produce such important consequences. There are three great Economic Quantities, PRODUCTS, BULLION and DEBTS, all seeking to be exchanged, all flowing from where they are cheaper to where they are dearer.

But all this vast superstructure of CREDIT—this mighty mass of exchangeable Property—is based upon GOLD BULLION. Different methods of doing business require different quantities of bullion: but however perfect and refined the system may be, we must come at last to a basis of bullion, as its moderator and regulator. If, therefore, the bullion be suffered to ebb away too rapidly, the whole superstructure is endangered, and then ensues one of those dreadful calamities, a Monetary Crisis.

We have endeavoured to explain the different causes which produce an adverse exchange, so that if one takes place the proper corrective may be applied. If it be caused by a de-

preciated Currency, there is no cure but a restoration of the Currency to its proper state.

When however it arises from a balance of indebtedness from commercial transactions there are but two methods of correcting it, an export of produce and A RISE IN THE RATE OF DISCOUNT.

It used to be a doctrine often asserted that an adverse exchange was in itself an inducement to export, on account of the premium at which bills could be sold. What truth there was in this doctrine can only be known to those actually engaged in such operations. But a very much more certain means of producing an export of goods is *a lowering of their price*. We shall enter into this more fully in the next chapter.

We have observed that a difference in the Rate of Discount between any two countries more than sufficient to pay for the transmission of bullion, will produce a flow of bullion from one to the other. But as all the cost of transmission both ways falls on the operator, the difference requires to be more considerable than might appear at first sight. And if they are three months' bills, the profit reaped will be only one-fourth of the apparent difference. Thus Mr. Goschen says there must be a difference of 2 per cent. between London and Paris, before the operation of sending gold over from France, for the sake only of the higher interest, will pay. And between other continental cities, of course, the difference may be much greater.

But whatever the difference may be the *method* is absolutely certain. Directly the Rate of Discount rises here, people cease to export bullion from here, and the continental bankers and brokers increase their demand for English bills. And as the Rate rises, the demand will increase, until at last the price reaches the specie point, and gold begins to flow in: and as the Rate rises more, more powerful will be the attraction, until at last the necessary equilibrium is restored between bullion and Credit.

CHAPTER VIII.

ON THE BANK CHARTER ACT OF 1844.

1. We shall now endeavour to explain as clearly as our limits allow us—1st. The Causes which led to the enactment of the Bank Charter Act of 1844; 2ndly. The Objects intended to be effected by that Act; 3rdly. The Mechanism devised for effecting those objects.

When the Bank of England was founded it lent all its Capital to Government, and was allowed to issue an exactly equal amount of Notes. On several subsequent occasions its Capital was increased, and at the same time it was allowed to issue an equal amount of Notes. Thus for a considerable time its power of issuing Notes was strictly limited to the amount of its Capital, and it was provided that if the Directors issued Notes exceeding the amount of their Capital they should be liable in their private capacity. Afterwards they were released from this limitation, and they were allowed to issue Notes to any amount they pleased, provided always that they were payable in specie on demand.

2. In 1797 the Bank suspended payments in cash, from causes which we need not detail here. But during the war, being endowed with the power of issuing any quantity of Notes they pleased, they gave countenance to very wild speculations, and at the same time an immense number of country banks started issuing torrents of Notes. The natural result of this was a heavy Depreciation of the Paper Currency. In February 1810, the Market, or Paper, Price of gold had risen to £4 10*s*., and the Foreign Exchanges had fallen to a similar extent. Guineas commonly passed for a £1 note and 6*s*. or 7*s*.

This state of matters caused such a derangement of commerce

that the Bullion Committee was appointed, who came to the resolution that this effect was caused by the excessive issues of Notes. They said that the true value of the Paper was to be estimated by the Market or Paper Price of gold, and the state of the Foreign Exchanges. In former times a high price of bullion and an adverse state of the Exchanges, had compelled the Directors to reduce their issues to counteract the drain of guineas, and to preserve their own safety. Since the restriction they had not followed the same principles, as they did not feel the inconvenience. Nevertheless they ought to observe the same rules as before the restriction, and to continue to regulate their issues by the Market Price of bullion, and the state of the Foreign Exchanges.

Some proposals had been made of remedying the evil by a compulsory limitation of the Bank's power of issuing Notes. But the Committee entirely discountenanced the plan of imposing a numerical limit on the Bank's issues, because the necessary quantity could never be fixed : and such a course might very much aggravate the severity of a temporary pressure.

A very important distinction however was to be observed between a demand for gold for domestic purposes, sometimes great and sudden, and caused by a temporary failure of confidence, and a drain arising from the unfavourable state of the Foreign Exchanges : *that a judicious increase of accommodation was the proper remedy for the former phenomenon : but a diminution of its issues the correct course to adopt in the latter.*

The Report emphatically declared that the mere numerical amount of notes in circulation at any time was no criterion whatever of their being excessive : the only sure criterion was to be found in the Price of gold bullion and the state of the Exchanges.

3. The House of Commons, however, rejected the Report of the Committee : and the Bank being freed from all restraint, still further increased its issues, which became still more depreciated, until in August 1813, the price of gold bullion rose to £5 10*s.*, and the real value of the note was about 14*s.* 2*d.*

In 1814–15–16 an immense number of country banks failed, which reduced the Paper Currency to about one-half : and the

effect of this was that in October 1816 the Paper Price of gold had fallen to £3 18*s.* 6*d.* Thus the truth of the principles of the Bullion Report was clearly proved.

The Bank Note was now so nearly brought to par, that in November 1816, the Bank gave notice of their intention to pay off all notes dated before the 1st of January 1812: and in April 1817, all their notes dated before the 1st of January 1816.

But in April 1817 a drain of gold began: the Bank took no measures to stop it: the Paper Price of gold began to rise and the Foreign Exchange to fall. In January 1819, the Paper Price of gold was £4 3*s.*, and the Exchange on Paris 23·50: the Bank would have been very soon drained of all its gold: and an Act was passed in April 1819 forbidding the Bank to make any payments in gold whatever.

4. The Bullion Report had been contumeliously rejected by Parliament: but it had been vehemently discussed by the press, and in 1819 it had entirely converted the mercantile world. The evidence given in its favour in 1819 was just as strong, as it had been adverse in 1810: and among other persons, it converted Peel, the chairman of the Commons' Committee in 1819, who said in his speech that there was no test of the excess or deficiency of the notes but a comparison with the price of gold. He also resisted the imposition of a limit on the issues of the Bank as a very unwise position, because *there were occasions when what was called a run on the Bank might be arrested in its injurious effects by an increase of its issues. It was, therefore, impossible to prescribe any specific limitation of issues to be brought into operation at any period how remote so ever.*

An Act was passed in 1819, commonly called Peel's Act, that the Acts in force for restraining cash payments should be continued till the 1st May 1823, when they were finally to cease. During the intervening period they might pay in bars or ingots of gold bullion of 60 oz. at certain prices: after the 1st of May 1823, they were to pay in gold coin as usual. This was Peel's Act which has been so much talked about: but it never came into operation at all. In 1821 the Directors having accumulated a large amount of treasure procured an Act by

which they were allowed to resume cash payments on the 1st May 1821.

5. In 1824 a rapid drain began from the Bank, which took no measures to stop it; this went on all through 1824 and 1825, when the bullion which was above 13 millions in January 1824 was reduced to little over one million in December 1825. A great monetary crisis took place in this month, which was only arrested by the Bank making very liberal issues of notes to support solvent houses.

6. In 1827 the Bank was at last convinced of the truth of the principles of the Bullion Report and endeavoured to adopt them. The plan it devised was this—To keep their "securities" as nearly equal as possible: their cash and bullion at one-half of their securities: and consequently equal to one-third of their "liabilities." But on several occasions the bullion had fallen to about one-fifth instead of one-third. There were very severe monetary pressures in 1836 and 1837, but in the spring of 1838 the Bank was again got into its normal position. But about the end of 1838 another period of disorganisation commenced as shewn by the following figures—

Date	Liabilities	Securities	Specie
	£	£	£
1838 December 10 . .	28,120,000	20,776,000	9,794,000
1839 January 15 . .	30,305,000	24,529,000	8,336,000
„ February 12 . .	26,939,000	22,628,000	7,047,000
„ March 12 . . .	26,088,000	22,173,000	6,580,000
„ April 30 . . .	26,475,000	24,536,000	4,455,000
„ May 14 . . .	25,711,000	24,098,000	4,117,000
„ July 16 . . .	28,860,000	28,846,000	2,987,000

The Bank was thus rapidly drifting into bankruptcy; and was only saved from stopping payment by negotiating foreign loans at Paris and Hamburg to the amount of £3,500,000.

There being shewn to be something radically defective in the management of the Bank led to the appointment of a Committee of the House of Commons in 1840, which condemned the principle upon which the Directors professed to act, but nothing could be done, as the Charter of the Bank did not expire till 1844.

7. In the meantime an influential sect of Currency writers had arisen, the most prominent of whom were Colonel Torrens, Lord Overstone, Mr. Norman, and others. They maintained the following principles—

1. That Bank Notes, i.e. the Promises of bankers to pay money on demand, alone are "Currency," and that no other forms of Paper Credit are Currency.

2. That if Banks are permitted to issue Notes they ought to be only exactly equal in amount to what the specie would have been if there were no Notes.

3. That any excess of Notes above the specie they displace is a Depreciation of the Currency.

Lord Overstone observed in his evidence before the Committee of the House of Commons in 1840 that it was a fundamental vice of the principle devised by the Directors in 1832 to carry out the doctrines of the Bullion Report, that the gold might all leave the country without causing any diminution of the amount of Notes in the hands of the public: we have seen that this assertion was completely verified in 1839.

8. The above-named writers being of great influence, converted Sir Robert Peel to their views, and his Bank Act of 1844 was expressly devised for the purpose of carrying these principles into effect: and the machinery adopted was as follows—

The Bank was divided into two Departments: the Issue Department, and the Banking Department.

The Directors were to transfer to the Issue Department Securities to the value of £14,000,000, of which the debt due by the public to the Bank was to be a part: and also so much of the gold coin and gold and silver bullion as should not be required for the banking department. The Issue Department was then to deliver over to the Banking Department an amount of Notes exactly equal to the Securities, Coin, and Bullion so deposited with them. The Banking Department was forbidden to issue Notes to any person whatever, except in exchange for other Notes, or such as they received from the Issue Department in terms of the Act.

No Banks or private bankers were allowed to commence issuing bank notes after the 6th May 1844: and if any ceased to

issue Notes after that date, the Bank might be authorised by the Crown in Council to increase the amount of Securities in the Issue Department to two-thirds of the Notes so withdrawn from circulation. Since 1844 several private bankers have ceased from business; and in terms of the Act the Bank's power of issuing Notes on securities has been increased to £15,000,000. Consequently its total power of issuing Notes is now limited to £15,000,000 *plus* the amount of bullion held by the Issue Department.

It was supposed that these provisions ensured that the Quantity of Notes in circulation, i.e. *in the hands of the public*, would be exactly equal to what a metallic Currency would have been, and that the outflow of bullion would by its own natural operation, have the mechanical effect of withdrawing Notes from the public to an equal amount. Having made these provisions, the framers of the Act supposed that they had taken out of the hands of the Bank all power of mismanaging the Currency, and that they might manage the banking department at their own discretion.

To say that the amount of Notes should only be equal to what a Metallic Currency would have been, is a very intelligible proposition; and as we have observed, several Banks have been constructed on that principle. *But no banks constructed on this principle ever did, or by any possibility could do, banking business for profit.* Every time that a Bank discounts a bill it is a violation of the "Currency Principle." The Banks constructed on the Currency Principle were pure Banks of Deposit: they never did any discount business: they did nothing but exchange Credit for specie and specie for Credit: and if the Bank of England were forbidden to discount, there is no reason why it should not be reconstructed on this principle.

But to suppose that the Bank Act really does carry out this principle is a most manifest error. In the first place it is evident that the £15,000,000 of Notes issued against the Public Debt and Securities are a direct violation of the "Currency Principle." How did the Bank obtain these securities? By purchase. Now the purchase money of these securities is in circulation, and the Notes created on their security *as well*. Is it not clear that these 15 millions of Notes are an *augmentation* of Currency to that

amount? If it be true that these 15 millions of Notes are not a violation of the "Currency Principle" then the very same argument would show that the whole National Debt might be coined into Notes, and then there would be no more Paper in circulation than under a purely Metallic Currency! Certainly it is an excellent plan for every one to buy the Funds with their cash, and then to be allowed to have it too in the form of Notes! This was exactly John Law's principle, and if we may coin the Funds into money we may just as well coin the land into money.

But this does not show the full extent of the error of those who think that the Bank Act enforces the "Currency Principle." The Banking Department does business like any other bank. It purchases or discounts Bills of Exchange by creating Credit in its books; that it increases its liabilities in another form besides Notes. This Credit is equally in excess of the Metallic Currency.

Therefore it is quite clear that those who seriously maintain that the Bank Act really carries out the Currency Principle must maintain this proposition—

Twice 15 millions + an indefinite number of millions=15 millions.

In Banks constructed on the "Currency Principle" the Credit created is always exactly equal in quantity to the money deposited and kept in the bank. But how does this matter stand in regard to the Bank? To test this we need only take any one of its published returns at random. On the 27th March 1873, it appears that the Credit created by the Bank amounted to £61,021,187, and the specie held by the Bank amounted to £23,886,372 or about 2·6 to 1. If therefore it be maintained that the Bank is constructed on the "Currency Principle" it must also be maintained that 2·6 are equal to 1.

As a matter of pure arithmetic, therefore, it is perfectly clear that the Bank Act completely fails to carry out the "Principle" it was intended to enforce. In fact the framers of the Act had a THEORY, and they passed an Act: but they never took the slightest pains to ascertain whether the Act corresponds with the Theory.

9. The expressed purpose of the Act was to cause a with-

drawal of Notes from circulation, *i.e.* from the public, exactly equal in quantity to the gold withdrawn from the Bank—in strict accordance with the "Currency Principle;" and it was supposed that if the Directors neglected this duty, the "mechanical" action of the Act would compel them to fulfil it. It is now to be seen how this expectation was fulfilled.

No occasion arose for testing the powers of the Act till April 1847. The well-known disasters of 1846 caused a steady drain of bullion from the Bank to commence in 1846. But the Bank made no alteration in the Rate of Discount till 1847, when the bullion was below 14 millions, and the bank raised its discount to $3\frac{1}{2}$. Having lost another million in a fortnight it raised discount to 4 per cent. But it made no further alteration till it had lost three millions more, and then it raised its discount to 5 per cent. Here we have the same inveterate error committed by the Bank as on so many previous occasions—an immense drain of bullion, and none but the most feeble and inefficient means taken to stop it. But this pressure is an excellent example to test the alleged "mechanical" action of the Act. We shall now see—1st: How the Bank was inclined to act on the principle. 2nd: Supposing they were disinclined to do so, how far the Act, by its self-acting principles, could compel them to do so The following figures speak for themselves—

Date	Bank Notes		Total Amount of Bullion	Minimum Rate of Discount per cent.
	Held by the Public	Held in Reserve by the Bank of England		
1846 August 29	20,426,000	9,450,000	16,336,000	3
,, October 3	20,551,000	8,809,000	15,817,000	3
,, November 7	20,971,000	7,265,000	14,760,000	3
,, December 19	19,549,000	8,864,000	15,163,000	3
1847 January 9	20,837,000	6,715,000	14,308,000	3
,, ,, 16	20,679,000	6,546,000	13,949,000	$3\frac{1}{2}$
,, ,, 30	20,469,000	5,704,000	12,902,000	4
,, February 20	19,482,000	5,917,000	12,215,000	4
,, March 6	19,279,000	5,715,000	11,596,000	4
,, ,, 20	19,069,000	5,419,000	11,232,000	4
,, April 3	19,855,000	3,700,000	10,246,000	4
,, ,, 10	20,243,000	2,558,000	9,867,000	5

These figures show the utter futility of the idea that, as the bullion diminished, the Act could compel a reduction of notes in the hands of the public, for the notes in circulation were within an insignificant trifle as large in amount when the bullion was only £9,867,000, as when it was £16,366,000. Consequently, nothing could be a more total and complete failure of the Act of 1844, on the very first occasion its services were required.

Lord Overstone complained to the Committee of 1840 that the principle laid down by the Directors for managing the Bank in 1832, provided no security that Notes should be withdrawn from circulation as the gold was withdrawn from the Bank: and it was the precise purpose of the Act of 1844 to compel the withdrawal of Notes from the public exactly in the same degree as gold was withdrawn from the Bank: and yet the foregoing figures show that the Bank Act failed on the very point it was expected to effect; and that it provided no effectual check whatever against mismanagement on the part of the Bank.

Whence did this failure arise? From this very simple circumstance. The framers of the Act supposed that there is only ONE way of extracting gold from the Bank, namely, by means of its Notes; and that if people want gold they must bring in Notes, and consequently, that as the gold comes out, Notes must go in.

But as a matter of simple banking business, there are TWO methods of extracting gold from the Bank—namely by Notes and CHEQUES. Those persons who have Credit in its books may go and present CHEQUES, and thus draw out every ounce of gold from the banking department, without a single Bank Note being withdrawn from the public.

In fact instead of withdrawing the notes from the public, as was intended by the Act, the Directors threw the whole effect of the drain of gold on their own reserves. And that happened in this way. The public has TWO methods of extracting gold from the Banking Department, namely by Notes and Cheques: but the Banking Department has only ONE method of extracting gold from the Issue Department, namely, its Notes in reserve. And when the Banking Department felt a drain on its gold, it had to replenish it by obtaining a fresh supply from the Issue Depart-

ment, at the same time giving up an exactly equal amount of Notes. And thus the whole drain fell on its own reserves, without withdrawing a Note from the public.

No legislation can prevent this power of extracting gold from the Bank by means of Cheques. And thus is explained the complete failure of the "mechanical" action of the Act to compel the Directors to carry out the "Currency Principle." The Directors were able to commit, and actually did commit, the very same error as they had done before the Act—which Lord Overstone had truly said was the fundamental vice of the Bank principle of 1832—and it was powerless to prevent them.

And this simple fact completely upsets the whole theory of the Act.

The fact is that there are *two* leaks to the ship. The framers of the Act could only perceive *one*: and they only provided against *one*: and they were utterly astonished to find the ship rapidly sinking from the *other* leak they had forgotten.

10. Now as the Act notoriously and manifestly failed in this most important point, which it was supposed to have rendered so secure, and which was fully and candidly admitted by Sir Robert Peel, it becomes a natural inquiry to ask why it failed. The reply to this is that the Act failed because *it aimed at the wrong mark altogether. It wholly missed the true point in the case.*

In former times it was a mercantile dogma that the Exchanges could only be against the country in consequence of its being indebted to other countries. Nothing can be more striking than the vicious circle in which the Commercial witnesses argued before the Bullion Committee of 1810. They maintained with unflinching perseverance that the Exchanges could only be adverse because the country was indebted: and as the Exchanges were adverse, they maintained that the country *must* be indebted (without the slightest inquiry into the fact) *because* the exchanges were adverse.

However the Bullion Committee completely disproved this Commercial dogma: and they demonstrated beyond dispute that the depreciated Paper Currency was the cause of the Exchanges being *apparently* adverse: but that when this depreciated Paper

Currency was reduced to its true value in gold, the Exchanges were in reality in *favour* of the country.

The Commercial witnesses maintained that when the indebtedness was paid off, the drain of bullion would cease of itself. But the Bullion Committee proved that with a Paper Currency so depreciated as Bank Notes then were, the drain would not cease until *all* the specie in circulation had left the country; which was amply verified in England at that period, and has been fully verified in many countries since.

The Bullion Committee thus shewed that there are *two* causes of a drain of bullion—1st, the indebtedness of the country: 2nd, a depreciated Paper Currency.

But in our *Theory and Practice of Banking* first published in 1856, we shewed that there is a THIRD cause of a drain of Bullion, and an adverse Exchange, which, however it might be known among commercial men, had never yet, that we have seen, found its way into any commercial book whatever, and most certainly had never been brought prominently before the public in Currency discussions, as a cause of an adverse Exchange, wholly irrespective of any indebtedness of the country, or of the state of the Paper Currency.

The principle is this—

That when the Rate of Discount between any two places differs by more than sufficient to pay the cost of transmitting bullion from one place to the other, bullion will flow from where discount is lower to where it is higher.

We have fully explained this principle in the preceding chapter, so that we need not repeat the explanation here. Hence if such a state of things arises, the Bank must, as an indispensable measure to preserve its own security, raise its Rate of Discount so as to destroy these profits; and so arrest the drain, which is exclusively caused by the difference of the Rates of Discount in the two places.

Now when bullion dealers fabricate Bills for the purpose of buying gold for exportation, this practice causes no increase of the Bank Notes in circulation: on the contrary, they are not wanted: it is *gold* that is demanded and taken for export, and it steals out of the country noiselessly and unobserved. Also if

bankers in this country will perversely maintain the Rate of Discount lower here than in neighbouring countries, and, therefore, lower than the natural Rate, persons in foreign countries send their debts or securities over here for sale, and the proceeds are remitted abroad. Consequently this practice causes an export of gold without diminishing the Notes in circulation. Of all species of property Debts are the most easily transportable. The charges on the transmission of gold even, are heavy compared to those on the transmission of Debts. Debts to any amount can be transmitted from one country to another at the mere expense of the postage. Consequently if the Americans can only get £85 per cent. for their Debts in their own country, and they can get £96 per cent. in England, of course, they will send them here in vast quantities for realisation. This was eminently and notoriously the case in 1839, when the Bank of England kept its Rate so perversely below the natural Rate, and it was the cause which aggravated the drain of bullion to so alarming an extent. Hence we have shewn that besides the causes universally known for a drain of bullion—the indebtedness of the country and a depreciated Paper Currency—there is *another* and most potent cause whose importance has only been recently sufficiently recognised, namely—*an unnatural depression of the Rate of Discount below that of neighbouring countries.*

Now this principle was not understood at the time the Bank Act of 1844 was passed: and in our work on Banking (1856) we stated this as a fundamental principle of the Currency—

AN IMPROPERLY LOW RATE OF DISCOUNT IS IN ITS PRACTICAL EFFECTS, A DEPRECIATION OF THE CURRENCY.

We therefore shewed that the only true method of striking at this demand for gold is by RAISING the RATE OF DISCOUNT: and that the true supreme power of governing and controlling Credit, or the Paper Currency, is by carefully ADJUSTING THE RATE OF DISCOUNT BY THE STATE OF THE FOREIGN EXCHANGES, AND THE STATE OF THE BULLION IN THE BANK.

The fact is that bullion dealers are the natural enemies of bankers, and they are constantly on the watch to take any advantage they can of the weakness of bankers, if they sell gold too cheaply: and they want this gold, not for the purpose of the

internal commerce of the country, as other traders do, but for the express purpose of sending it to be sold in other countries where it has a higher value. They act exactly as people would do with corn dealers if they were so foolish as to sell their wheat at half the price it was selling at in neighbouring markets. If the farmers were to keep selling their wheat at 40*s.* a quarter in England, while the price was 80*s.* in Paris, of course corn dealers would buy up the wheat in England and export it to France.

Now the weak point in the Act of 1844 is that it takes no notice of this grand principle: it takes no precaution that the Directors of the Bank of England shall recognise it, and counteract it. On the contrary it leaves them in full power to repeat their oft committed error of causing a depreciation of the Currency from an unnaturally low Rate of Discount. And thus the fundamental vice of the Bank Act of 1844 is exactly the same as Lord Overstone said was the fundamental vice of the Bank principle of 1832. The whole of the gold may be drawn out of the Bank without withdrawing a single Note from circulation, *i.e.* from the hands of the public.

11. This principle was extremely little understood in 1856, when our work was published; but its truth was soon signally verified and acknowledged to be true by the most competent authorities. After the great crisis of 1857, a Committee of the House of Commons was appointed to investigate its causes, and Mr. Norman, a Director of the Bank of England, and one of the most prominent and influential advocates of the "Currency Principle" and of the Bank Act of 1844 was asked—

Q. 3529. Is it not principally by raising the Rate of Interest that you check the amount of discounts which may be demanded of you?—Yes: we have found, *contrary to what would have been anticipated*, that the power we possess, and which we exercise, of raising the Rate of Discount, keeps the demand upon us within manageable dimensions. There are other restrictions which are less important. *The Rate we charge* for our Discounts, we find in general, is a sufficient check.

In 1861 Mr. Goschen published his *Theory of the Foreign Exchanges*, in it he says—

"The efficacy of that corrective of an unfavourable state of the Exchanges, on which we have been dilating (*i.e.* raising the Rate of Discount) has been most thoroughly tested by late events. Every advance in the Bank Rate of Discount has been followed by a turn of the Exchanges in favour of England, and *vice versâ*, as soon as the Rate of Interest was lowered, the Exchanges became less favourable."

It is quite needless to quote any more evidence in favour of this principle: its truth is now as universally admitted by all competent persons as the Newtonian Law of Gravity. It is the acknowledged principle upon which the Bank of England is now managed: after our work was published in 1856, the Usury Laws in France were modified in order to enable the Bank of France to adopt it: and in fact it is now adopted by every Bank in the world.

In former times when the only communication between different countries was by means of sailing ships and common roads, and therefore very slow, expensive, and uncertain, this principle, though actually true, could seldom be called into action, because the cost and delay in the transport of gold would far exceed any profit to be made out of the difference in the Rates of Discount, in quiet times. It was like some mechanical force, which actually exists, but which is overpowered and prevented from producing any visible effect, in consequence of friction. But it did act in times of commercial crisis, when the Rate of Discount became extreme. In 1799 enormous failures took place at Hamburg: discount rose to 15 per cent., and this rate immediately drew gold away from England.

But in modern times, since communications have been so much accelerated and cheapened, even since the Act of 1844, by means of railroads and steamers, this friction, as we may call it, has been immensely diminished: and this great principle is called into action with a much less difference between the Rates of Discount than at any former period. Bullion would probably have taken ten days to go from London to Paris: it can now go in ten hours, and at probably the tenth part of the expense. A difference of 2 per cent. between the Rates of Discount in London and Paris will now draw bullion from one place to the other.

On the Causes which compelled the Suspension of the Bank Act in 1847, 1857, *and* 1866.

12. The monetary pressure which we mentioned above passed away at the time, but another much more severe came on in the Autumn, which ended in a monetary panic; and on the 25th November 1847, the Government authorised the Bank to exceed the limits allowed by the Act of 1844, if they considered it necessary to do so to restore commercial confidence. This suspension of the Act was perfectly successful: and on two similar occasions in 1857 and 1866 a similar course was followed with similar results. We have given a full narrative of the course of events preceding these panics in our *Theory and Practice of Banking*, to which we must refer those who desire full information on the subject. We must now only examine the reasons which made this course necessary, and why it was successful.

Ever since the enormous development of the Credit system of commerce in modern times, great commercial failures have periodically recurred, producing the most widespread distress; and there have been two conflicting Theories as to what the action of the Bank ought to be in a Monetary Crisis.

1. One Theory maintains that in such a Crisis, the Bank should liberally *expand* its issues, to support Commercial Credit. This Theory may be called the EXPANSIVE Theory.

2. The other Theory maintains that in such a Crisis the Bank should rigorously *restrict* its issues to their usual amount, or even contract them. This Theory may be called the RESTRICTIVE Theory.

Both these Theories have been tried in practice, and discussed by the most eminent authorities, and we may succinctly examine the results.

The first great monetary Crisis in modern times took place in 1763, after the termination of the seven years' war. This great disaster occurred at Hamburg and Amsterdam, where the "Currency Principle" was in full operation, and where there was no Banking Credit whatever, except what represented specie. The failures began at Amsterdam among the principal merchants.

The Bank had no power to assist them: and the resources of the private bankers were exhausted. Hearing that the Amsterdam bankers had determined to allow the merchants to fail, the Hamburg bankers wrote to them in the greatest alarm to say that if they did not support the merchants, they would instantly suspend their own payments. By the time the letter reached Amsterdam, the merchants had already stopped. General failure followed at Hamburg, where no business was transacted for some time, but for ready money. The failures were equally general throughout Germany. The Crisis extended to England, and Smith says that the Bank made advances to merchants to the amount of a million.

Thus we see that the "Currency Principle" was no protection whatever against a Monetary Crisis: and on this occasion the Bank acted on the EXPANSIVE Theory.

In 1772 the severest Monetary Crisis since the South Sea scheme took place. On this occasion again the Bank came forward to support Commercial Credit.

In 1782 our unhappy war with America was ended, and the usual results of the termination of a great contest took place. The Bank had greatly extended its issues: and a very alarming drain of specie took place, which at one time threatened to oblige them to stop payment. The Directors, however, considered that if they could only restrain their issues for a short period, the returns in specie in payment of the exports would soon set in in a more rapid manner than they went out. They determined, therefore, to make no communication to Government, *but for the present to contract their issues* UNTIL THE EXCHANGES TURNED IN THEIR FAVOUR. The Bank felt the greatest alarm in May, 1783. They then refused to make any advances to Government on the loan of that year: but they did not make any demand for payment of their own advances, which were between 9 and 10 millions. They continued this policy up to October, when at length the drain had ceased from the country, and money had begun to flow in from abroad. At length in the Autumn when the favourable signs began to appear, they advanced freely to Government on the loan, although at that time the cash in the Bank was

actually lower than at the time they felt the greatest alarm. It was then reduced to £473,000.

The doctrine then stated by Mr. Bosanquet that guided the Directors was this. That while a drain of specie was going on their issues should be contracted as much as possible: but that as soon as the tide had begun to give signs of ceasing, and turning the other way, it was then safe to extend their issues freely. This policy had been entirely successful, and the Credit of the Bank was saved.

After the peace of 1782 the commercial energies of the country were greatly developed: to carry on this increased commerce a greatly enlarged Currency was necessary: and as the monopoly of the Bank prevented solid Banks being founded innumerable tradesmen started up in every part of the country issuing notes. Burke says that when he came to England in 1750, there were not 12 bankers out of London: in 1792 there were about 400: the great majority being grocers, tailors, drapers, and petty shopkeepers. In the autumn of 1792 very numerous failures took place in Europe and America. In January, 1793, the general alarm was greatly increased by the rapid progress of the French Revolution. Some great failures occurred in London in February; and soon the panic spread to the banks. Of these 100 stopped payment, and 200 were much shaken. The pressure in London was intense: and this naturally produced a demand on the Bank for support and discounts. But the Bank being thoroughly alarmed, resolved to contract its issues: bankruptcies multiplied with frightful rapidity. The Government urged the Bank to come forward to support Credit, but they resolutely declined.

In the meantime the most alarming news came from Scotland. The public Banks were quite unable, with due regard to their own safety, to support the private bankers and commerce. Unless they received immediate assistance from Government, general failure would ensue. When universal failure seemed imminent, Sir John Sinclair remembered the precedent of 1697, when the public distress was allayed by an issue of Exchequer Bills. A Committee of the House of Commons was appointed, who reported that the sudden discredit of so large an amount of

bankers' notes had produced a most inconvenient deficiency in the Circulating Medium: and that unless a Circulating Medium was provided, a general stoppage must take place. They recommended that Exchequer Bills to the amount of £5,000,000 should be issued under the directions of a board of Commissioners appointed for the purpose, in sums of £100, £50, and £20.

No sooner was the Act passed than the Committee set to work. A large sum, £70,000, was at once set down to Manchester and Glasgow on the strength of the Exchequer bills, which were not yet issued. This unexpected supply, coming so much earlier than was expected, operated like magic, and had a greater effect in restoring Credit than ten times the sum would have had at a later period.

When the whole business was concluded, a report was presented to the Treasury. It stated that the knowledge that loans might be had, operated in many instances to prevent them being required. The applications granted were 238, and the sum advanced was £3,855,624. The whole sum advanced was repaid: two only of the parties assisted became bankrupt: all the others were ultimately solvent, and in many instances possessed of great property. A considerable part of the sum was repaid before it was due, and all the rest with the utmost punctuality. After all expenses were paid, the transaction left a clear profit to the Government of £4,348.

Contemporary writers all bear witness to the extraordinary effects produced. Macpherson says that the very intimation of the intention of the Legislature to support the merchants operated like a charm over the whole country, and in a great degree superseded the necessity of relief by an almost instantaneous restoration of confidence. Sir Francis Baring concurs in this view, and adduces the remarkable success of the measure as an argument to show the mistaken policy of the Bank. After careful deliberation, the Bullion Report warmly approved of it: censured the proceedings of the Bank: and especially cite it as an illustration of the principle they laid down, that an enlarged accommodation is the true remedy for that occasional failure of confidence to which our system of Paper Credit is unavoidably exposed.

This occasion, therefore, is a most important example of the beneficial effects of the EXPANSIVE Theory in a monetary panic.

Towards the end of 1794 the Exchanges began to fall rapidly, and in May, 1795, were so low that it was profitable to export bullion. While, however, the Exchanges were so adverse the issues of the Bank were immensely extended. After some time however the Directors became alarmed and took the most rigorous measures to contract them. In April 1796 the Exchanges became favourable, and they continued so till February 1797.

The excessive contraction of its issues by the Bank caused the greatest inconvenience to commerce, and a meeting of bankers and merchants was held to devise some means of relief. The failures among the country bankers in 1793 had caused an immense diminution of the country issues, and Thornton says that in the last three months of 1796 the issues of the bank were no higher than they had been in 1782, with an amount of commerce many times larger than in that year. As the public could not get Notes, they made a steady and continuous demand for guineas: and *although the Exchanges were favourable to the country and gold was coming in from abroad*, there was a severe drain on the Bank for gold. Political circumstances added to the alarm, and about the middle of February a stoppage of country banks became general. The panic reached London, and a general run began upon the bankers. Before this the Directors had used the most violent efforts to contract their issues. In five weeks they had reduced them by nearly £2,000,000. On the 21st January they were £10,550,830, and on the 21st February they were £8,640,250. But even this gave no true idea of the curtailment of mercantile accommodation: for the private bankers were obliged for their own security to follow the example of the Bank. In order to meet their payments, persons were obliged to sell their stock of all descriptions at an enormous sacrifice. The 3 per cents. fell to 51!

On Saturday the 25th February 1797, the specie in the Bank was reduced to £1,272,000 with the drain becoming severer every hour. The Directors now felt that they could hold out no longer: and on Sunday a Cabinet Council was held, and an

Order in Council was issued directing the Bank to suspend payments in cash until the sense of Parliament could be taken on the subject. Accordingly on Monday the 27th, the cash being then reduced to £1,086,170, the Bank suspended payments in cash, and did not resume them partially till 1816, and completely till 1821.

But immediately this was done, they enlarged their accommodation liberally: within a week they increased their issues by two millions, and the relief was very great. A meeting of 4,000 merchants and traders agreed to support the Credit of the Notes.

The most eminent authorities afterwards severely censured the management of the Bank. Thornton said that the excessive contraction of Notes had shaken public credit of all descriptions, and had caused an unusually severe demand for guineas: that the Bank ought to have extended its issues to supply the places of the Country Notes which were discredited. Boyd was clearly of opinion that the excessive restriction of Notes was the chief cause of the forced sale and depreciation of the public securities. In 1810 the Governor of the Bank said that after the experience of the policy of restriction, many of the Directors repented of the measure: and the Bullion Committee explicitly condemned the policy of the Bank both in 1793 and 1797.

Nothing in short could be more unhappy than their regulation of their issues. When the Exchanges were violently adverse, so that it was very profitable to export gold, they enlarged them to an extravagant extent: and when the Exchanges were extremely favourable, so that gold was flowing in, they contracted them with merciless severity. The issues which were £14,000,000 when the Exchanges were *against* the country were reduced to £8,640,250 when they had been for several months eminently favourable. The entire concurrence of the evidence shews that it was this excessive restriction of Credit which caused the severe demand for gold.

And now we see the practical results of the two policies: when all commercial and banking Credit was on the verge of universal ruin it was saved and restored by the EXPANSIVE Theory in 1793: in 1797 the RESTRICTIVE Theory was carried out to the bitter end, AND THE RESULT WAS THE STOPPAGE OF THE BANK.

A consideration of all these circumstances induced the Bullion Committee to condemn the RESTRICTIVE Theory in the most emphatic terms: and all the greatest mercantile authorities of the period, including Peel himself in 1819, entirely concurred in these doctrines: and he said that no limitation of the Bank's power of issue could ever be prescribed at any period however remote. That period however came in 1814.

The next great crisis was in 1825. Ever since the beginning of 1824 there had been a continual drain of bullion which the Bank took no means to stop. It fell from 13¾ millions in March 1824, steadily and continuously to barely 3 millions in November 1825, when every one felt a crisis to be impending. The papers discussed the policy of the Bank, and it was generally expected that it would rigorously contract its issues. The panic began on Monday the 12th December 1825, with the fall of Pole, Thornton and Co., one of the principal City banks, which drew down with them forty country banks. A general run began upon all the city bankers. For three days the Bank pursued a policy of the most severe restriction. Mr. Huskisson said that during 48 hours it was impossible to convert into money, to any extent, the best securities of the Government. Exchequer Bills, Bank Stock, East India Stock, as well as the public Funds, were unsaleable. At last when universal stoppage was imminent, the Bank completely reversed its policy. On Wednesday, the 14th, it discounted with the utmost profuseness. Mr. Harman said—"We lent by every possible means, and in modes we had never adopted before: we took in stock as security: we purchased Exchequer bills: we made advances on Exchequer bills: we not only discounted outright, but we made advances on deposit of bills of exchange to an immense amount: in short by every possible means consistent with the safety of the Bank, and we were not, on some occasions, overnice; seeing the dreadful state the public were in we rendered every assistance in our power." Between Wednesday and Saturday the Bank issued £5,000,000 in Notes, and sent down to the country a large box of £1 notes, which they accidentally found. This bold policy was crowned with the most complete success:

the panic was stayed almost immediately, and by Saturday was over.

The circumstances of this crisis are the most complete and triumphant example of the truth of the principles of the Bullion Report, and of the EXPANSIVE Theory: and signally vindicate the wisdom of Peel in 1819, when he refused to adopt the RESTRICTIVE Theory, and impose a numerical limit on the Bank's issues, and which he again protested against in 1833.

The next crisis was in 1837: but the Bank foreseeing it, judiciously anticipated it, and made the most liberal issues to houses which required it. By thus adopting the EXPANSIVE Theory in good time, nothing more occurred than a severe monetary pressure, which was prevented from deepening into a crisis entirely by the judicious conduct of the Bank.

Up to this period Sir Robert Peel had passed through *two* phases of opinion with regard to the Currency Question. When comparatively a young man he had formed one of that famous majority which had voted that a £1 note and 1*s*. were exactly equal to a £1 note and 7*s*.: or that 21 is equal to 27. In 1819 he completely adopted the doctrines of the Bullion Report and became a disciple of the school of Horner, Huskisson, Thornton, and Ricardo. But in 1840 a new school of Currency Theorists had arisen of whom the most distinguished were Mr. Jones Loyd, now Lord Overstone, Colonel Torrens, Mr. Norman and others. These influential persons saw that notwithstanding the undoubted truth of the doctrines of the Bullion Report, there was some incurable vice in the management of the Bank of England, which had, beyond all dispute, greatly conduced to prepare the way for the great commercial crisis of 1825 by its extravagant over-issues of Notes. They found that the Bank was totally unable to manage itself on the principles it professed to be guided by. They traced the original source of all Commercial crises to the excessive issues of Notes by banks. They adopted the definition of "Currency" as being Money and Bank Notes only payable to bearer on demand, to the exclusion of all other forms of Paper Credit: and they maintained that the only true principle of issuing Notes was that when Notes were issued

they should be exactly equal in amount to what the specie would be if there were no Notes.

These doctrines being strenuously urged by a number of able and influential persons, completely converted Sir Robert Peel, who now entered on the *third* phase of opinion with respect to the Currency Question, and by the Bank Act of 1844 he endeavoured to give effect to these doctrines.

Peel therefore determined now to adopt the RESTRICTIVE Theory, and to impose by law, what every eminent authority of former times including himself had solemnly condemned—a *numerical* limit on the issues of the Bank.

The Bank Act was passed amid general applause, but as said above, on the very first occasion on which its powers were tested in April 1847, it completely failed to compel the Directors to carry out its principles, and one-third of its bullion ebbed away, without any appreciable diminution of the amount of its Notes in circulation.

But in October 1847 a far severer crisis took place. The Bank made immense advances to other banks and houses to prevent them from stopping payment. But numerous Banks and Commercial Houses did stop payment, and the resources of the Bank were exhausted. At last after repeated deputations to the Government to obtain a relaxation of the Act, and with the stoppage of the whole commercial world imminent, the Government authorised the Bank to issue Notes at discretion. And what was the result? The panic vanished in 10 minutes. No sooner was it known that Notes might be had if necessary, than the want of them ceased. The whole issue of Notes in consequence of this letter was only £400,000 and the legal limits of the Act were not exceeded.

Thus on this occasion again, the RESTRICTIVE Theory wholly failed: and the EXPANSIVE Theory saved the country and was the only means of saving the Bank itself from stopping payment.

The next great crisis was in November 1857, which was far more severe, as regards the Bank itself, than that of 1847. On the 12th November 1857 the Bank closed its doors with the sum of £68,085 in Notes: £274,953 in gold: and £41,106 in silver:

being a total sum of £387,144. Such were the resources of the Bank to begin business with on the 13th! Truly said the Governor it must entirely have ceased discounting, which would have brought an immediate run upon it. The bankers' balances alone were £5,458,000. It is easy to see that the Bank could not have kept its doors open for an hour.

On the evening of the 12th the Government sent a letter to the Bank, authorising them to issue Notes at their discretion, but not at a less rate than 10 per cent.; and next morning as before, the panic had passed away.

Thus on this occasion again, the RESTRICTIVE Theory wholly failed: and the EXPANSIVE Theory saved the country: and was the only means of saving the Bank itself from stopping payment.

The next great crisis was in 1866, which was still more severe. Unfortunately, no investigation was held respecting it, so that there is no reliable account of its circumstances. On the 10th of May there was a general run upon all the London banks. It was said, but we cannot say with what truth, that one great Bank alone paid away £2,000,000 in six hours. After banking hours it became known that the great discount house of Overend, Gurney and Co. had stopped with liabilities exceeding ten millions —the most stupendous failure that had ever taken place in the city. The result of such a catastrophe was easily foreseen: not another bank could have survived the next day: and that evening the Government again authorised the Bank to issue at discretion, at not less than 10 per cent. The Bank advanced £12,255,000 in five days: but the panic passed away.

Thus again the RESTRICTIVE Theory wholly failed: the EXPANSIVE Theory saved the country: and was the only means of saving the Bank itself as well as every other bank from stopping payment.

Thus we see the entire failure of Peel's expectations. He took away the power of unlimited issues from the Bank, and imposed a rigorous numerical limit on its powers of issue, under the hope that he had prevented the recurrence of panics. But the panics recurred with precisely the same regularity as before: and therefore in this sense too the Act has failed: and when

monetary crises do occur, it is decisively proved that it is wholly incompetent to deal with them.

It has been seen that it is a complete delusion to suppose that the Bank Act carries out the "Currency Principle." It might be supposed perhaps, that if it did really carry out the "Currency Principle" it might prevent panics arising. General experience however entirely negatives this view. In 1764 the most severe Monetary Crisis which had occurred up to that time, took place at Amsterdam and Hamburg, where the banks were really constructed on the "Currency Principle."

A decisive example of this took place at Hamburg in 1857. A similar Monetary Crisis took place there as here, and the Bank being constructed on the "Currency Principle" had no power to issue Notes to support Credit. The Magistrates were obliged to issue city bonds to support the Credit of the merchants: exactly as the Government had issued Exchequer bills in England in 1793. Here also the RESTRICTIVE Theory wholly failed, and it was found necessary to adopt the EXPANSIVE Theory to avert universal failure.

This disaster took place where the "Currency Principle" was in full force; another instance that it is no protection against panics.

The experience of every country exactly confirms the experience of England. At Turin the bank was constructed on some principle of limitation: but in 1857 it was found necessary to suspend its constitution, and allow it to issue Notes to support Credit.

The very same thing was conspicuously proved in 1873. In Austria, in North Germany, and in America, the Banks were all constructed on some analogous principle of limitation of their issues. But in the severe monetary panic in each of these countries, it was found necessary to suspend their constitutions, and authorise them to issue at discretion to support commercial Credit.

Thus universally throughout the world, it is proved by abundant experience, that the Restrictive Theory cannot be maintained after a monetary panic has reached a certain degree

of intensity: and that it is absolutely necessary to adopt the EXPANSIVE Theory to avert universal failure.

13. The supporters of the Act of 1844 assert that it is the complement of, and in strict accordance with the principles of the Act of 1819, and the Bullion Report. But such statements are utterly incorrect: and the following are the fundamental differences of principle between them—

I. The Bullion Report declares that the mere *numerical* amount of Notes in circulation, at any time, is no criterion whether they are excessive or not.

The Theory of the framers of the Act is that the Notes in circulation should be exactly equal in quantity to what the gold coin would be if there were no Notes: and that any excess of Notes above that quantity is a *depreciation* of the Currency.

Is this principle of the supporters of the Act in accordance with the principle of the Bullion Report?

II. The Bullion Report declares, and the supporters of the Act of 1819 maintained, that the sole test of the depreciation of the Paper Currency is to be found in the Price of Gold Bullion and the state of the Foreign Exchanges.

Ricardo says—"The issuers of Paper Money should regulate their issues solely by the price of bullion, and never by the quantity of their paper in circulation. The quantity can never be too great or too little, while it preserves the same value as the standard."

According to the supporters of the Act of 1844, the true criterion is whether the Notes do or do not exceed in quantity the gold they displace.

Is the doctrine of the supporters of the Act of 1844 in accordance with the doctrine of the Bullion Report and the framers of the Act of 1819?

III. It was proposed to the Bullion Committee to impose a positive limit on the issues of the Bank to curb their powers of mismanagement. The Bullion Report expressly condemns any positive limitation of its issues: and Peel in 1819 and in 1833, fully concurred in this condemnation.

The Bank Act of 1844 expressly limits the issues of the Bank.

Does the Bank Act of 1844 coincide with the principles of the Bullion Report and the doctrines of Peel in 1819 and 1833?

IV. The Bullion Report, after discussing the most important Monetary Crises which had occurred up to that time, expressly condemns the RESTRICTIVE Theory in a Monetary Panic, and says that it may lead to universal ruin: and recommends the EXPANSIVE Theory.

The Bank Act enacts the RESTRICTIVE Theory by Law: and prevents the EXPANSIVE Theory from being adopted.

Does the Bank Act of 1844 agree with the doctrines of the Bullion Report, and of Peel in 1819 and 1833, on this point?

Peel in introducing his measure of 1844 said we must never again have such discreditable occasions as 1825, 1836, and 1839: but since 1844 we have had 1847, 1857, and 1866. On each of these occasions the RESTRICTIVE Theory was enacted by law: and on each occasion the Government was obliged to come forward and authorise the Bank to break the Law: to abandon the RESTRICTIVE Theory, and adopt the EXPANSIVE Theory, as the only method of averting ruin.

Experience, therefore, has indisputably proved that the Bullion Report was framed with truer wisdom and scientific knowledge of the Principles of Paper Currency than the Bank Act of 1844. The only deficiency in the Report was that it failed to point out the proper means for carrying its principles into effect so as to maintain Paper on a par with gold. But we supplied this defect by shewing that the true means of controlling the Paper Currency is by adjusting the RATE of DISCOUNT *by the Foreign Exchanges and the state of the Bullion in the Bank.*

Examination of the Arguments alleged for maintaining the Bank Act.

14. It has now been clearly shewn that the Bank Act has completely failed both in THEORY and PRACTICE. It has been shewn that it is based on a Definition of the word "Currency" which any Mercantile Lawyer would at once pronounce to be erroneous—that it professes to adopt a Theory of Currency which

it has entirely failed to enforce—that if the Directors choose they can mismanage the Bank quite as easily under the Act as before it, and that the pretended "mechanical" action of the Act wholly failed to prevent them from doing so—that the Act was expressly framed with the expectation that it would prevent commercial panics, and that it has wholly failed in doing so: and hitherto panics have recurred with the same regularity as before—and furthermore, although the Act is in no sense whatever the cause or original source of these crises, yet when they *do* occur, and they reach a certain degree of intensity, the operation of the Act, by visibly limiting the means of assistance, deepens a severe monetary pressure into a panic, which can only be allayed by its suspension, and a violation of its principles.

In every one of these respects the Bank Act has completely failed: and in regard to these things its credit and reputation is utterly dead and gone. It is therefore necessary to examine fairly the arguments alleged in its favour, and the reasons urged why it should still be maintained.

The supporters of the Act, allowing that it has failed in some respects, yet allege that the Directors having committed the same mischievous errors as they had done before it, it arrested their mismanagement much sooner than would otherwise have been the case: and that when the panic did occur, it was only through the Act that the Bank had six millions of gold to meet the crisis: and that by this means the convertibility of the Note was secured.

So far as regards the crisis of 1847, it must be admitted that there is much truth and force in this argument. The Directors at that date shewed that they had not yet acquired the true principles of Banking, and it must be conceded that it was entirely owing to the Act that they were checked in their mistaken policy while there was still six millions of gold in the Bank.

But the same ground of censure did not apply to the crisis of 1857. In the interval between 1847 and 1857, the Directors really grasped the true method of controlling the Paper Currency by means of the Rate of Discount. The truth of this principle was probably more quickly enforced on their attention by the

limitation imposed by the Act than it would otherwise have been. It has never been alleged that the Commercial Crisis of 1857 was in any way due to the Act. But it is a matter of positive certainty that since that date the Bank has fully recognised and adopted the principle of governing the Paper Currency by means of the Rate of Discount. The same rule has been adopted by the Bank of France, and this is now the recognised principle by which every Bank is managed. Certainly since 1857 there has been nothing to blame in the general management of the Bank. Granting every merit that can fairly be due to the Act, that it has compelled the recognition and adoption of this principle some years earlier than it otherwise would have been, it may be said that the Act has now fulfilled its purpose. It has done all the good it can do. The Directors now perfectly understand, and have for the last 19 years conducted the Bank with the greatest success on sound principles. Having therefore accomplished this great purpose, the Act has done its work, and has ceased to be necessary: and its operation at other most important times being proved to be injurious by the most overwhelming evidence, it may now be safely and advantageously repealed—so far at least as regards the limitation of its power of issue. And the reason for the expediency of this change is this—

Under the present system of Commercial Credit, there must be some Source with the Power of issuing undoubted Credit to support solvent Commercial Houses in times of Monetary Panic.

It has been conclusively shewn in the preceding remarks, that it is entirely futile to expect that Commercial Crises can be prevented; and that they occur with precisely the same violence in places where there is a purely Metallic Currency as anywhere else. Hence the illusions in this respect, on which the Act was founded, are now completely vanished.

In all cases, houses which are clearly insolvent should not be supported: they ought to be compelled to stop without any hesitation. To support such houses is a fraud upon their creditors. But under our complicated system of commerce, the Credit of even the most solvent houses is so inter-twined and connected with others, that no one can tell how far any house, even of the highest name, is solvent. Consequently every one is

affected by this universal discredit. Many houses which are really solvent, may have their assets locked up in some form which is not readily convertible. Under such circumstances it is absolutely indispensable, to prevent universal ruin, that there should be some source with the power of issuing undoubted Credit to houses which can prove their solvency. And there are but two sources from which such Credit can be issued, the Government and the Bank of England.

In 1793 the Bank resolutely refused to support Commercial Credit, and the Government was obliged to assist solvent houses with Exchequer bills, and this saved the commercial community from ruin. In 1797 the Bank also refused to support commerce, and the result was its own stoppage. After the stoppage, however, it largely extended its issues, and commerce was relieved.

In every commercial crisis since 1797, however sternly the Bank has adopted the RESTRICTIVE Theory at first, it has ultimately been driven to abandon it, and adopt the EXPANSIVE Theory. In 1825, while the Bank persisted in the RESTRICTIVE Theory, some eminent bankers stopped payment with assets worth 40*s.* in the pound. Two days afterwards the Bank changed its policy, and issued notes with the most profuse liberality, and the panic vanished. If the Bank had adopted this principle at first, and assisted those bankers who were really solvent, they would have been saved from stopping payment.

The very same principle was decisively proved in 1847, 1857, and 1866: the RESTRICTIVE Theory was in those years enforced by Law. But no Government could maintain the Act and the RESTRICTIVE Theory to the bitter end, and face the consequences of producing universal ruin in pursuance of a Theory which all the most distinguished authorities had unanimously condemned.

It is therefore irrefragably proved by the unanimous opinion of the most eminent commercial authorities, and the clear experience of 100 years that the RESTRICTIVE Theory in a commercial crisis is a fatal delusion: and that when a commercial panic is impending, the ONLY way to avert and allay it is to give prompt, immediate, and liberal assistance to all houses who can prove themselves to be solvent, at the same time allowing all houses which are really insolvent to go. Universal experience

proves that this is the ONLY means of separating the sound from the unsound, and averting general ruin by preserving the former.

As a matter of fact it is perfectly well known to all bankers that an excessive restriction of Credit *produces* and *causes* a run for gold.

Sir William Forbes, in his interesting *Memoirs of a Banking House*, says of the crisis of 1793—"These proceedings which obviously foreboded a risk of hostilities were the signal for a check on mercantile Credit all over the kingdom: *and that check led by consequence to a demand on bankers for the money deposited with them*, in order to supply the wants of mercantile men."

The Bullion Report expressly attributes the stoppage of the Bank in 1797 to the merciless restriction of Credit.

In 1857 discounts had ceased at the various banks and a general run was commencing upon them when the Treasury letter came: this allayed the panic and stopped the run.

In 1866 matters were a great deal worse. In consequence of the restriction on Credit, a most severe and general run took place on all the London bankers. The sum paid away during the panic can probably never be known, but it was something perfectly fabulous. And this general run upon the bankers was certainly caused and produced by the excessive restriction of Credit, caused by the Bank Act.

The result of such an Act was most distinctly predicted by Henry Thornton, one of the joint authors of the Bullion Report, in his treatise on the Paper Credit of Great Britain published in 1802. He says—

"Two kinds of error on the subject of the affairs of the Bank of England have been prevalent. Some political persons have assumed it to be a principle, that in proportion as the gold of the Bank lessens, its paper, or, as is sometimes said, its loans (for the amount of the one has been confounded with that of the other) ought to be reduced. It has been already shewn, THAT A MAXIM OF THIS SORT, IF STRICTLY FOLLOWED UP, WOULD LEAD TO UNIVERSAL FAILURE."

The Bank Act of 1844 was constructed on this precise principle, and Thornton's prediction has been strictly verified.

Seeing then that it is a matter of absolute demonstration that

it is indispensably necessary that there must be some source having the power to issue solid Credit to support solvent houses in Monetary Panics, it only remains to consider whether that source should be the Government, or the Bank—and very convincing reasons shew that it ought to be the Bank rather than the Government.

Such a duty is quite out of the usual line of the Government. They must issue a Special Commission to investigate the solvency of those merchants who ask for assistance. Such a Commission would never be appointed until matters had become very severe, and much suffering would be caused by the unnecessary delay.

But such a thing is the ordinary and every day business of the Bank. The merchant simply goes in the ordinary way of business to the Directors, satisfies them of his solvency, gives them the necessary security, and receives the assistance without delay.

These considerations as well as others which might be adduced, shew that the proper source to have this power is the Bank of England, and not the Government.

Some persons however might suppose that such an issue of notes might turn the Foreign Exchanges against the country. It was formerly supposed, and the idea pervaded Sir Robert Peel's speech, that the Foreign Exchanges are mainly influenced by the numerical amount of Notes issued. But in modern times it has been proved that the RATE of DISCOUNT is an infinitely more powerful method of acting on the Exchanges than the amount of Notes. And this may be said to be a new discovery since Sir Robert Peel's speech: for there is not a trace of this principle to be found in it: nor did any of the practical men of business who supported the Act ever shew that they appreciated the importance of this principle. In former times certainly, when there were multitudes of Banks issuing torrents of Notes, these Notes lowered the Rate of Discount, and drove the bullion out of the country. But under the modern system when these issues have been happily suppressed, all danger on this score has vanished: and under present circumstances no issues are excessive which do *not lower the Rate of Discount.*

The doctrine laid down in the Bullion Report and by all the

most eminent authorities of that period, was, that the true criterion of the proper quantity of Paper Currency was *not its numerical amount*, but the state of the Foreign Exchanges and the Market Price of Gold Bullion. This doctrine was true so far as it went: but unfortunately it was incomplete: the Committee never laid down the Rule for carrying this principle into effect. The principal method thought of until after Peel's time, was simply diminishing the numerical amount of the Notes. It is true that raising the Rate of Discount was reckoned among the subsidiary methods of arresting a drain, but so little was its true importance understood that it was not even mentioned by Peel. But in our *Theory and Practice of Banking* we shewed by the plainest arguments that it is THE TRUE KEYSTONE OF THE THEORY OF THE BULLION REPORT, and it is now proved by conclusive experience that it is THE TRUE SUPREME POWER OF CONTROLLING THE EXCHANGES AND THE PAPER CURRENCY, and all other methods are insignificant compared to it. And since the Directors now thoroughly understand and act upon this principle, they may be entrusted with unlimited powers of issue.

Some able authorities however are of opinion that the Act should be maintained, as it strengthens the hands of the Directors in carrying out this principle, and enforcing the rule. That without the Act commercial pressure upon them might sometimes be too strong to resist. Whatever force there may be in this argument, it will be found that the other arguments completely outweigh it: and in fact such an argument naturally leads us to consider the constitution of the Directorate itself.

By a remarkable custom professional bankers are excluded from the Directorate of the Bank, which is exclusively composed of merchants. It has long been recognised that Commercial Credit and Banking Credit are of two distinct natures and in many respects conflicting and antagonistic. The same persons should not carry on both kinds of business: great bankers should not be merchants, and great merchants should not be bankers. The DUTY of a banker frequently conflicts with, and is antagonistic to, the INTEREST of a merchant. A banker's duty is to keep himself always in a position to meet his liabilities on demand: and when there is a pressure upon

him it is his *duty* to raise the price of his money. But the INTEREST of a merchant always is to get accommodation as cheap as possible. Hence as the Directors emanate exclusively from the Commercial body, the INTEREST of the body from which they come, has been frequently opposed to their DUTY as Directors of the Bank. And formerly it cannot be denied, that their sympathy for the body to which they belonged has interfered with their proper course of action as Directors of the Bank, and has been the cause of many errors.

The whole principles of the subject have now been brought to strictly scientific demonstration. If therefore the Directors find themselves unable to withstand Commercial pressure, and fulfil their undoubted duty, it would seem to raise the question whether some modification of the constitution of the Directorate might not be desirable, and whether a certain portion of them at least, should not be unconnected with commerce, as private bankers are. There are very good reasons why they should not be exclusively taken from the Commercial body.

The overwhelming weight of practical considerations is in favour of restoring the Bank to its original condition, and abolishing the separation of the departments: which, as has been shewn, was intended to carry out a particular Theory, but which it wholly fails to do. For while times are quiet, or even during a moderately severe monetary pressure, the Act is wholly in abeyance: it is entirely inoperative. But when a real commercial crisis takes place—and it totally fails to prevent these as it was expected to do—and when the Crisis has deepened beyond a certain degree of intensity, then the Act springs into action with deadly effect. It prevents by Law the only course being adopted which the unvarying experience of 100 years has shewn to be indispensable to avert a panic, namely, a timely and liberal assistance to solvent houses: then follows wild panic: and if the Act were rigorously maintained, then universal ruin.

The true object of the Act is to insure the convertibility of the Bank Note. But the principle of the Act, or the machinery devised for that purpose, is merely a means to that end, and it has been proved to be defective. A better means of attaining

the object of the Act has been ascertained and demonstrated to be true by the strictest scientific reasoning, as well as by abundant experience, since the passing of the Act, which is acknowledged to be efficacious: and, therefore, the Act is no longer necessary. The necessity for passing the Act was a deep discredit to the Directors of the Bank. It was a declaration that they were not competent to manage their own business. But now that they have shewn that they are perfectly able to do so it is no longer necessary. It may be sometimes necessary to put a patient into a strait waistcoat: but when the patient is perfectly recovered and is restored to his right mind, the strait waistcoat may be removed—especially as it is found that under certain circumstances the strait waistcoat not only strangles the patient, but scatters death and destruction all around

CHAPTER IX.

ON THE BUSINESS OF BANKING.

1. We have seen in a former chapter that from the time the word "Banker" was first used it meant a person who bought Money by means of his Credit, or Promise to pay an equal sum either on demand, or at some future time. In the business of the Exchanges, those are termed "banking operations" which consist in buying and selling Bills. A "Banker" also buys other Debts such as Bills of Exchange by means of his own Credit, by creating fresh Debts. Hence the business of a merchant is to buy and sell commodities with Money and Debts: the essential business of a "Banker" is to buy Money and Debts, by creating other Debts. A "Banker" is therefore essentially a dealer in Debts, or Credit: though he sometimes adds other species of monetary business to this.

In modern practice a Banker may stand in *four* relations to his Customer—

1. As the Purchaser from him of Money or Debts.

2. As his Agent or Trustee, or Bailee of his Money and Valuable Securities, i.e. Securities for Money and Convertible Securities; these are termed Banking Securities.

3. As the Pawnee of the same.

4. As his Warehouseman for plate, specie, jewels, deeds, &c., not being Banking Securities.

The Duties, Rights, and Liabilities between a banker and his customer are separate and distinct in all these relations, and we must now explain them.

On the relation of a Banker to his Customer as the Purchaser from him of Money or Debts.

2. The first of these cases is the ordinary one where a customer opens an account with a banker by means of paying in money to his account. In this case, the customer cedes the Property in the Money to the banker, and receives in exchange the Right or Property to demand an equal sum when he may require it. The transaction is a Sale or an Exchange of Money for a Debt. The Money placed with the banker is not a *Depositum* but a *Mutuum*. The banker and his customer stand in the common law relation of Debtor and Creditor. It is also part of the fundamental contract between the banker and his customer that the latter may transfer this Right or Property, called a Credit or a Debt, to any one else he pleases, and this Right of Action may circulate exactly in the same way as Money itself.

The banker therefore has bought this money: he has acquired the entire Property in it, and he may do what he pleases with it. He may trade with it in any way he pleases, and his customer has no legal ground of complaint against him. He has voluntarily parted with his money and received in exchange for it the Right to demand an equivalent sum: and if when he does so, his banker is unfortunately unable to pay it, the customer is only entitled to receive a proportion of the banker's property rateably with other creditors.

Therefore the common phrase when a man says he has so much "money" at his banker's is incorrect. He has *no* money at his banker's, he has nothing but a Right of action to demand money which is recorded in his banker's books, and which is called a Deposit.

If a customer makes his will bequeathing "all his ready money" "all his Debts" "all his moneys" the sum standing at his credit in his banker's books has been held by numerous decisions in Equity to pass under these designations.

The relation between banker and customer being simply that of Debtor and Creditor, if a customer were to leave a balance on

his banker's hands for six years without operating on it, the Statute of Limitations would take effect, and he might if he chose refuse to pay it.

This is the simplest case of an account between banker and customer and is called a *Drawing* or *Current Account.*

Trading customers however usually keep a different kind of an account with their banker. They sell their goods and take a bill at 3 months for them. As this bill is not convenient for trading purposes, they take it to their banker and offer it to him for sale. If he thinks it a good debt which will be paid at maturity he buys it from his customer. He writes down to the Credit of his customer's account the full amount of the bill and at the same time he debits his account with the sum he agrees to receive as profit. When the profit is retained at the time of the advance it is called DISCOUNT. The discount is, therefore, the difference between the *price* of the bill and the *amount.* When a banker buys a bill in this manner he is said to *discount* it.

When a banker discounts a bill for a customer or buys a Debt which is due to him, it is a complete sale of the Debt. The banker first makes his customer *indorse* it, that is write his name on the back of it. By this indorsement the customer, though he has sold the Debt to the banker, remains a security for its due payment. And if the acceptor or principal debtor does not pay the bill when it becomes due, the banker has the right to charge his customer with the amount of the bill, provided he gives him immediate notice of dishonour.

When a banker discounts a bill, the entire Property in it passes to him, just as we have seen above, the entire Property in the money paid in by his customers passes to him. The bill belongs to him just as much as any other chattels he possesses. He may sell it again if he pleases, or *re-discount* it, as it is termed: and if he becomes bankrupt, the entire Property in it passes to his assignees.

It is of great importance to observe the true nature of the transaction. In the loose language in which Economical subjects are usually treated it is commonly said that when a banker discounts a bill for a customer, he makes him a *loan* on the

security of the bill. This, however, is a complete misconception of the nature of the transaction: and it can easily be shewn to be so. If the banker merely made a *loan* to his customer on the security of the bill, it would be the *customer's* duty to repay the money at the time fixed, just as in all other loans it is the duty of the person receiving the money to repay it. But when a banker discounts a bill it is wholly different. He does not seek repayment of the money from his own customer, but he demands payment of the debt from the *acceptor* of the bill, and if it is duly paid, his customer never hears of or sees the bill again. It is only in the event of the non-payment of the bill by the acceptor that he comes back upon his own customer. If he made a loan to his customer on the security of the bill, he would give the bill back to his customer when he was repaid; but he never does so when it is duly paid. In such a case the Property in the bill would remain with the customer, and pass to his assignees in the event of his bankruptcy: whereas it does not do so; it is the Property of the banker, and the assignees of the customer have no right to it.

The transaction is in reality an exchange of Debts. The banker buys a Debt payable at a future time, by creating a Debt in his customer's favour, payable on demand.

It may seem to some to be mere logomachy to distinguish between a discount as a sale and as a loan on the security of a bill: it is however nothing of the kind: the two transactions are essentially distinct, and involve distinct legal consequences to all parties, of the most important nature, civil, as well as criminal.

As a matter of fact the whole difficulty in understanding the nature of banking arises from the circumstance that those who have written on it were not sufficiently acquainted with the elementary principles of Mercantile Law. A debt is, as we have several times pointed out, a saleable Commodity or Merchandise, Goods, or a Chattel, like any other. The banker buys this Chattel or Goods, or Merchandise from his own customer, at a lower price, and sells it to the acceptor at a higher price just as any other retail dealer buys goods at a lower price from one person, and sells them at a higher price to another. And these

goods are Capital to the trader because he makes a profit by buying and selling them. Exactly in the same way the Debts which the banker has bought and keeps in his portfolio, are Capital to him, because he makes a profit by buying and selling them. And he buys these Goods by creating a Debt in exchange for it, for which he charges exactly the same as if it were cash, consequently his Credit is Capital to him, just as if it were money.

In these cases, therefore, which are the simplest, the banker does not stand in any fiduciary relation to his customer. They are independent exchangers, or buyers and sellers, of Money and Debts.

On the relation of a Banker to his Customer as his AGENT *or* TRUSTEE, *or* BAILEE *of* SPECIE *and* BANKING SECURITIES.

3 Besides, however, the simplest and most ordinary relation between bankers and their customers, as exchangers of Money and Debts, bankers do undertake trusts, and enter into fiduciary relations with their customers. They receive sums of money which are specifically directed by their customers to be appropriated to some special purpose: as well as securities, and other valuable Property, such as Stock, Shares, &c. to receive the dividends, on behalf of their customers: they receive Bills of Exchange on behalf of their customers, and collect them for their customers exactly in the same manner as they do for themselves: and are answerable to them for any loss incurred through any negligence in not complying with the known usages of commerce. Bills of Exchange, Stock, Shares, Exchequer Bills, &c., are called Banking Securities.

In such cases as this the Property in these Valuable Securities does not pass to the Banker: he is the mere AGENT, TRUSTEE, or BAILEE of his customer, and he has to obey his specific instructions in each case, and if he appropriated them to his own use it would be criminal. Moreover in the event of his bankruptcy, the Property in such things would manifestly not pass to his assignees.

The temptation to a banker to use for his own benefit, the Valuable Securities entrusted to his care, is so great in times of commercial pressure that it is enacted by the Larceny Act 24 & 25 Vict. (1861) c. 96, s. 75—

"As to Frauds by Agents, Bankers or Factors—

75. "Whosoever having been entrusted, either solely or jointly with any other person, as a Banker, Merchant, Broker, Attorney or other Agent, with any Money, or Security for the payment of money with any direction in writing to apply pay or deliver such Money or Security or any Part thereof respectively, or the Proceeds or any part of the proceeds of such Security for any purpose or to any person specified in such direction, shall in violation of good faith, and contrary to the terms of such direction in any wise convert to his own use or benefit, or the use or benefit of any person other than the person by whom he shall have been so entrusted, such Money, Security or Proceeds, or any part thereof respectively: and whosoever having been intrusted either solely or jointly with any other person as a Banker, Merchant, Broker, Attorney, or other Agent with any Chattel or Valuable Security or any power of attorney for the sale or transfer of any share or interest in any Public Stock or Fund whether of the United Kingdom, or any Part thereof, or of any Foreign State, or in any Stock or Fund of any Body Corporate, Company, or Society, for safe custody, or for any special purpose without any authority to sell, negotiate, transfer, or pledge, shall in violation of good faith, and contrary to the object or purpose for which such Chattel, Security, or Power of Attorney shall have been intrusted to him, sell, negotiate, transfer, pledge, or in any manner convert to his own use or benefit, or the use or benefit of any person other than the person by whom he shall have been so intrusted, such Chattel or Security, or the Proceeds of the same, or any part thereof, or the share or interest in the Stock or Fund to which such Power of Attorney shall relate, or any part thereof, shall be guilty of a misdemeanour, and being convicted thereof shall be liable at the discretion of the Court, to be kept in penal servitude for any term not exceeding seven years, and not less than three years, or to be imprisoned for any term not exceeding two

years, with or without hard labour, and with or without solitary confinement."

On the Relation of a Banker to his Customer as PAWNEE *of* BANKING SECURITIES.

4. In the first of the relations between the banker and his customer above described, the banker was the absolute purchaser of the Money and Securities of his customer, so that he might do what he pleased with them: in the second he was merely his customer's Agent, and it is highly penal for him to appropriate to his own use any of his customer's securities. A relation between these two is frequently created in which Securities are deposited by a customer with a banker: the absolute Property in them remains with the customer: but he obtains a loan, or advance of money from his banker on their security: which when he pays off, the full Property and Possession of his Securities reverts to himself. The banker thus becomes the PAWNEE of his customer's securities, and while he is so he acquires certain Rights over them, though not exactly a Property in them; and it is out of such cases as these that the most difficult and abstruse questions arise between bankers and their customers.

It has always been the custom that if a banker makes a loan to a customer on the security of bills &c. deposited with him, he has the right to repledge, or sell so much of these securities as is necessary to satisfy his own claim. And this custom is expressly sanctioned in the same clause as has been already quoted—

It says that nothing in the section shall restrain any banker "from selling, transferring or otherwise disposing of any Securities or Effects in his possession upon which he shall have any Lien, Claim, or Demand entitling him by Law so to do, unless such Sale, Transfer, or other Disposal shall extend to a greater number or part of such Securities or Effects than shall be requisite for satisfying such Lien, Claim, or Demand."

This principle has always been held to apply when a banker makes a loan on the pledge of these securities. It is also held to apply when a customer having an ordinary account with his banker has overdrawn it, and become indebted to him: the

banker has a lien or a right to retain all *banking* securities deposited with him by his customers.

But he has no lien against a customer for a balance of account upon valuable property, such as a chest of *plate* deposited with him for safe custody, not in his capacity of *banker*.

And if a customer being indebted to his banker on an overdrawn account, brings fresh securities to him, and directs him to appropriate them to some specific purpose, the banker has no lien upon them for his debt. He must either fulfil his express instructions, or return the securities to his customer.

Nor has he any lien upon securities which his customer may deposit with him merely in his character as *Trustee*. Even though the customer may have fraudulently obtained an advance on them from the banker, the Trust will override the lien.

But a banker's lien on securities which come into his hands without being appropriated to any specific purpose, or entrusted to him for safe custody, or the like, is so strong that it applies to Bills or Notes payable to bearer, to Exchequer Bills which pass by delivery, even though the customer were not the real owner of them, and had no right to pledge them.

Questions of great nicety frequently occur between bankers and their customers; and in the event of the bankruptcy of either or both of them, their assignees, respecting the Property of bills placed by customers in the hands of their bankers for various purposes.

It is very common for customers to place in the hands of their bankers the bills they receive in business for the purpose of collection.

This is very convenient for the customer. By placing the bill in the hands of his banker he frees himself from all anxiety and trouble regarding its loss, or presentation for payment. The banker is bound as his customer's Agent to present it for payment, and place the amount to his customer's credit as soon as it is paid. And if he fails to do so and any loss occurs through his neglect of the usages of trade, he must make good the loss to his customer.

For the sake of convenience, it is usual to note down the amount of such bills on the proper day, in the customer's account

in a column "short of" or before the column for cash. Hence these bills are said to be entered "short" and the banker is said to hold such bills "short."

The entry is a mere memorandum to remind the banker that he has such bills to collect for his customer, on a certain day. The sum is in no way placed to his customer's credit: and the bills "held short" are the exclusive property of his customer, which he is entitled to demand back at any time previous to his bankruptcy.

As the banker has acquired no Property in them, in the case of his bankruptcy, the customer is entitled to demand them back immediately.

But in the case of the customer's bankruptcy, the banker must not deliver up his short bills to him, as all his Property has vested in his assignees.

As "short" bills are not the Property of the banker he would be indictable if he used them for his own profit.

London bankers act as Agents and correspondents for country bankers. Therefore they are in many cases, as regards country customers, the agents of an agent.

A country customer frequently requires his banker to perform some duty for him which can only be done by his London agent: and perhaps sometimes that can only be done by that London agent employing a foreign agent. In these successive agencies losses may happen quite innocently in the course of trade. But in all such cases the country banker is liable to his customer because it was he who chose the agent who made the loss; or he chose the agent who chose the agent who made the loss. Therefore it was the country banker's conduct that led to the loss, and he must bear it, so far as regards his own customer, and then have recourse against his own agent.

Hence in all cases when a banker undertakes to get payment of a bill, or anything else, for any party, he is liable to him, if any loss occurs through him or his agents.

If a banker takes Goods as a security for an advance, he ought to satisfy himself that his customer is entitled to them: for by common law the real owner will be able to recover them, or their value from him, if unlawfully pledged. That is they have no "currency."

A banker sometimes takes a POLICY of LIFE INSURANCE as a security for a debt. In such a case he should give notice to the office of the assignment: as in the event of his customer's bankruptcy, the policy would vest in his assignees.

It is a well established principle that a debt due to a trader, though assigned by him, is in his order and disposition in the event of his bankruptcy, even though the instrument of the debt has been delivered over, unless notice of the assignment has been duly given.

He must also have actual possession of the policy; as if the debtor holds it it would pass to his assignees.

Policies of Life Insurance are most undesirable securities for a banker to hold: as he may become liable to pay the premium for a long series of years, and may thus make a loss.

But more undesirable still if possible, are SHARES in public companies. To complete his right to them, he must have them transferred to himself, and thus become liable for calls, and even worse, in the event of the failure of the company. A banker, therefore, should never make advances on shares, except of companies of a very high standing: for instead of buying a *security* he may very probably find he has bought a *liability*.

DOCK WARRANTS and BILLS of LADING are Negotiable Instruments; and being duly indorsed the Property in the goods they represent passes by the simple delivery of the instrument, so as to empower the holder to obtain possession of them.

A banker sometimes takes a deposit of TITLE DEEDS, by way of equitable mortgage. In all such cases he should have a written memorandum stating distinctly the purpose for which the deposit is made: for it is laid down that in doubtful cases, where there is no memorandum, the Court leans against considering the deposit as a security for antecedent debts.

On the Relation of a Banker to his Customer as WAREHOUSEMAN *of his plate, jewels, specie, deeds, &c.*

5. Besides buying money and securities from their customers in the way of banking business, bankers also receive from their customers chests of plate, jewels, specie, deeds, and policies, of all

sorts for the sake of safe custody in their strong rooms. In this capacity they act simply as WAREHOUSEMEN for their customers, and no Property of any description passes to them in the goods deposited: and they have no lien over these deposits for balances due to them from their customers on their accounts.

And as these goods are only placed with them on trust, the Statute of Limitations does not apply, for the Statute never operates against a Trust. It is said that several London bankers have plate and jewels deposited with them by the refugees in the French revolution. The real owners perhaps perished in the revolution, and their heirs have never claimed their valuables.

On a Banker's LIEN *on his Customer's Securities.*

6. A banker's general Lien is part of the Law Merchant, and is judicially noticed as such.

A banker has a general Lien over all securities deposited with him by his customer as a *banker*, for debts due to him by his customer without any specific appropriation.

But he has no Lien over securities placed in his hands for a special purpose. If he receives securities in such a way he undertakes to do what he is requested: and such an undertaking is quite inconsistent with the notion of a Lien.

If a banker takes a security *payable at a future day*, his Lien is gone. For taking the security payable at a distant day, is payment *pro tempore*, and an extinction of the debt: and no new debt arises until default is made in payment of the new security.

The BANKRUPTCY *of a Customer.*

7. Directly a customer becomes bankrupt, he is commercially dead: and he has lost all power to deal with his property, which is gone to his Creditors.

Consequently a banker may *receive* money on a bankrupt customer's account, because he does so as trustee for the Creditors: but he must not pay away any money to his customer's order: and if he does so, he will have to refund it to the Creditors.

He may retain any security he holds for any debt to which it is specially appropriated, but he is the trustee of the Creditors for any excess.

If a banker pays any of his customer's cheques after he has notice of his having committed an act of bankruptcy, he will have to refund the money and will not be allowed to prove for the amount.

On the Appropriation *of* Payments.

8. If a customer keeps several accounts with a banker, and is indebted to him, he has a right to say to which of them any money he pays in shall be appropriated. But if he makes a payment generally, the banker has the right to appropriate it to which he pleases, and may take reasonable time to determine which.

On Banking Instruments *of* Credit.

9. A banker buys Money and Securities from his customers, and gives them in exchange for it his own Credit. This Credit or Debt is expressed either in the form of an entry in his books called a Deposit, or the banker may give him a written document in various forms, such as a Bank Note, Deposit Receipt, a Draft on his correspondents, Circular Notes, and Letters of Credit.

By the Common Law of England any person may issue his Promissory Note in any form payable to bearer on demand; payable to order; or at sight, or after demand: or at any certain event: and for any amount.

In the middle of the last century a considerable number of bankers issued their Notes for small sums such as five or ten shillings, and for £1. But by a Statute in 1775 all persons were forbidden to issue Notes payable to bearer on demand for less than £1; and by a Statute in 1777 a similar prohibition was enacted against all Notes under £5.

By the 7 & 8 Vict. (1844) c. 32. ss. 10, 11, 12, no person may become a party to an Obligation payable to bearer on demand in any part of the United Kingdom: except those bankers

who were lawfully issuing their own Notes on the 6th May 1844.

A Bank Note is defined by Statute 17 & 18 Vict. (1854) c. 83, s. 11 to be—

"Any bill, draft, or note (other than notes of the Bank of England) which shall be issued by any banker, or the agent of any banker, for the payment of money to the bearer on demand, and any bill, draft, or note so issued, which shall entitle, or be intended to entitle the bearer or holder thereof, without indorsement, or without any further, or other indorsement than may be thereon at the time of issuing it, to the payment of any sum of money on demand, whether the same shall be so expressed or not, in whatever form and by whomsoever such bill, draft, or note shall be drawn or made."

The following establishments only may issue obligations payable to bearer on demand in England—

1. The Bank of England.

2. Private banking firms which were lawfully issuing their own notes on the 6th of May 1844, and which have not become bankrupt, or discontinued such issue since that date.

3. Joint Stock Banks formed under the 7 Geo. IV. (1826) c. 46 issuing their own notes at a distance not less than 65 miles from London.

Tender of payment in country bank notes is good if not objected to on that account. Even if a banker tender his own notes which are afterwards dishonoured.

If country bank notes be taken in payment of goods at the time of the sale, and as part of the contract, so that no debt is created, and without indorsement, the vendor takes them at his own risk, and has no remedy against the transferor if the banker fails, before he has obtained payment of them.

But if the transferor knew at the time he offered the notes in payment that the banker had failed, he is liable.

But if the notes be taken, not at the time of the exchange, but in payment of a pre-existing debt, however short a period has elapsed between the creation of the debt and the tender of the notes, if the transferee present the notes within due time, and find that the banker has failed, and give due notice of dishonour

to the transferor, he may demand payment of his original debt.

If a customer pays into his account with his banker the notes of another banker, for which his banker gives him either credit in account or a deposit receipt: and if the banker on duly presenting the notes for payment finds that the banker who issued them has failed: and if he gives due notice of dishonour to his customer, he may cancel the credit.

But if instead of demanding payment of the notes he takes a credit in account with the banker who issued the notes, that is equivalent to payment, and he is liable to his customer, if the other banker fails.

If one person changes a bank note as a favour for another, and if on duly presenting the note for payment he finds that the banker has failed, and if he gives due notice of dishonour, he may demand back his money.

On Cheques.

10. A banker invariably buys Money and Securities from his customer by creating a Credit in his favour. This Credit is termed a Deposit.

By the custom of bankers the contract between a banker and his customer having an ordinary drawing or current account with him, is to pay on demand, either to him or to any one else to whom the customer may assign them, whatever funds he may have at his customer's credit, within a reasonable time after he has received them, and to accept his customer's bills to that amount.

By the custom of bankers possession of funds is equivalent to acceptance, and admission of funds is a legal acceptance of a cheque drawn by a customer.

A verbal promise to pay, or a collateral writing promising to pay, or any mark such as initials placed on a cheque, the well understood meaning of which is a promise to pay, is a legal acceptance by a banker having funds of his customer.

A cheque is payment unless dishonoured, and tender of payment by cheque is good unless objected to on that account.

When a customer has placed securities in the hands of his

banker, and is allowed to draw against them in a certain well understood way, the banker cannot change the well understood course of dealing, and dishonour his customer's cheques without giving him notice.

A banker who pays a cheque must cancel it by crossing out the drawer's signature under a penalty of £50.

Paid Cheques are the property of the drawers, who may demand them back at any time; unless they be overdrafts, for then the banker has a right of action on them.

If a banker cancels the drawer's signature to a cheque, and if before actual payment he discovers any reason why he should not pay it, he may withhold payment.

But if the money be actually paid over to the presenter of the cheque, even in mistake, the property in the money is gone from the banker, and he cannot retake it.

Cheques are within the "Summary procedure on Bills of Exchange Act," 19 and 20 Vict. (1856) c. 67: and may be taken in execution.

If a Cheque payable to order bear an indorsement purporting to be that of the Payee, the banker is not bound to inquire into its genuineness: and an indorsement by procuration is within the meaning of the Act.

A cheque is the assignment of a *chose-in-action*, and when communicated or notified to the banker by the holder is a complete assignment of the fund.

If a cheque be notified to the banker, and the drawer dies before it is paid the holder is entitled to payment.

If a banker pays a cheque with a forged signature the loss falls on him.

So if the body of the cheque be written by his customer, and fraudulently altered by another person, so as to be payable for a larger sum than originally drawn, and the banker not detecting the alteration pays it, he must bear the loss of the excess.

But if the customer authorises another person to write the body of the cheque, and that person fraudulently alters the cheque so as to make it payable for a larger sum than authorised, and so the body of the cheque is all in the same handwriting the banker will not be liable.

If a banker pays a cheque under circumstances which are evidently suspicious he must bear the loss.

A banker must pay his customer's cheques strictly in the order in which they are notified, communicated, or presented to him for payment.

He must debit his customer's account with cheques on the day they are notified to him or paid, and not on the day they are drawn.

Sums paid by a banker extinguish the debts created by sums paid to him in strict chronological order.

If a banker having funds of his customer wrongfully dishonours his cheque, or bill made payable at the bank, so that the customer suffers damage, he has an action against the banker for such damage.

But such special damage must be laid and proved.

If the customer becomes bankrupt in consequence of the wrongful dishonour of his cheque his assignees have an action against the banker.

The holder of the cheque or bill may sue the banker on the instrument.

A cheque may be presented any time within six years of its date to charge the banker; and the drawer if the banker fails.

The transferee of an overdue cheque is not subject to the equities of the transferor, as the transferee of an overdue bill.

If a customer has an account of a fiduciary nature, such as Trustee, Executor, or otherwise, a banker may not refuse to pay his cheques because he may *believe* that the customer intends to apply the funds in a breach of trust.

And he will not be liable to the *cestuique trust* if he is not privy to the breach of trust.

But if he acts in concert, agreement, and collusion with his customer in committing the breach of trust: and especially if he obtains some benefit by it as by his customer paying a debt of his own to him by means of cheques on the trust account, he must replace the trust fund.

The Statute of Limitations does not apply to a banker misapplying a trust fund.

A Credit in account, or Deposit, if taken instead of money, is good payment.

If a banker supplies his customers with cheques with a crossing in blank printed on them, the customer before he issues the cheque, may write the words "pay cash" on it. This being done before the cheque is issued, nullifies the crossing, and the banker may pay cash across the counter.

If a banker either at the request of a customer, or when a cheque is presented by the holder or his agent, place a "mark" upon it, as by his initials, signifying that the cheque is good, and will be paid, such "mark" is a legal acceptance of the cheque by the banker.

If a banking company has several branches, each with its own customers and accounts, each branch is considered an independent bank for the purpose of receiving and transmitting notice.

Each branch must collect its own cheques and bills, and time will not be enlarged so as to permit it to collect them through its head office.

If a person change a cheque as a favour for another; and if the cheque be duly presented and dishonoured, he may give notice of dishonour and recover the money.

A LETTER of CREDIT is a written request addressed by one person to another requesting the latter to give credit to a person named in it.

If the request be unconditional it is termed an OPEN CREDIT.

If the request be on the condition that bills of lading be deposited as collateral security it is termed a DOCUMENT CREDIT.

A MARGINAL letter of credit is one by which a person named in the margin guarantees to another person that he shall receive credit from or have his bills accepted by a third person.

The holder of a banker's circular letters may demand payment of them from himself, as well as from his correspondents abroad.

But he is not bound to cash them unless they are returned to him, or he receives an indemnity.

On Banking Investments.

11. Though a banker is bound theoretically to repay every one of his customers instantly on demand, yet as no man whatever would spend all his money if it were in his own possession, but would keep a store of it, and spend it gradually: so when he keeps it at his banker's, he will not be likely to require it all at once, but will keep a store of it there, just as he would have done if he had kept it at home: and the banker is able to trade with it in a variety of ways, if he takes care to keep by him sufficient to meet any demand his customers are likely to make on him. The different methods in which a banker trades with the money left with him by his customers depend very much on the class of his customers and their occupations and the general business of the locality he lives in. He must adapt his business in such a way as may be most suitable for the class of customers he has to deal with, so that he may never fail for an instant to meet any demand. If his customers are chiefly country gentlemen, whose rents are remitted regularly, and who draw them only for family expenditure, he may calculate pretty accurately on the demand likely to be made on him, and he may lend out his funds on more distant securities than are proper to other cases. Such are chiefly country bankers in agricultural districts and those at the West end of London.

But when a banker does business in a trading community who are in constant want of their money, and whose demands are much more frequent and unexpected, he must adopt a very different line of business. He must then have his funds within reach at a very short notice, and he ought to have them invested in such property as he can re-sell on a very short notice; to meet any unexpected pressure on him. The business of such a banker will chiefly consist in discounting bills of exchange, and is of a distinct nature from that of lending money on mortgage.

We must now consider the various methods in which bankers trade: they are—

1. By discounting bills of exchange.

2. By advancing to their customers on their own promissory notes, with or without collateral security.

3. By means of Cash Credits or overdrawn accounts.

4. By lending money on mortgage.

5. By purchasing public securities, such as Stock or Exchequer bills.

On Discounting Bills of Exchange.

12. We have already fully explained the nature and meaning of discounting bills of exchange: here, therefore, we have only to make some practical observations on the subject.

If an abundant supply of good bills were always to be had, they are, no doubt, the most eligible of banking investments, for their date is fixed, and the banker always knows when his money will come back to him. He charges the profit at the time of the advance, and he gains it whether the customer draws out the money or not: and in a large bank it must often happen that drawers, acceptors, and payees, are all customers of the same bank, so that when the drawer has his account credited with the proceeds of the bill, and gives a cheque on his account, in many cases it must happen that the cheque finds its way to some one who is a customer of the same bank, and, therefore, the bank has reaped a profit by creating a credit which is simply transferred from one account to another. And the same results take place much more frequently by means of the system of clearing explained presently, by which all the banks that join in it, are, in fact, but one great banking institution. If it should happen that a customer of one of the clearing banks gives a cheque to the customer of another; the chances are that some customer of that other bank gives a cheque to the customer of the first, and these claims are simply readjusted to the several accounts without any demand for coin. The more perfect the clearing system, the less coin will be required. Consequently the greater part of banking profits are now made simply by creating Credits, and these Credits are paid not in cash, but by exchanging them for other Credits.

When a banker discounts a bill for a customer he buys it, or purchases it, out and out from him and acquires all his customer's rights to it, that is of bringing an action against all the parties to

it, and also of reselling it again if he pleases, or rediscounting it, and this is one of the great advantages of discounting bills, that if there is an unusual pressure for cash on the banker, he can resell the bill he has bought.

We have observed that discount is more profitable than interest, and the profit rapidly increases the higher discount is. A very slight consideration will shew this. Suppose a money lender advances money at 50 per cent. interest. He would advance his customer £100, and at the end of the year receive his £100 back, together with the £50. His profits therefore would be £50 per cent. But suppose he discounts a bill for £100 at 50 per cent. He would only actually advance £50 and at the end of the year he would receive £100; consequently he would make a profit of 100 per cent.

The following table shews the difference in profit in trading by way of Interest and Discount.

Table showing the profits per cent. and per annum at Interest and Discount.

Interest	Discount	Interest	Discount
1	1·010101	8½	9·311475
1½	1·522832	9	9·890109
2	2·040816	9½	10·496132
2½	2·564102	10	11·111111
3	3·092783	15	18·823529
3½	3·626943	20	25·000000
4	4·166666	30	42·857142
4½	4·701570	40	66·666666
5	5·263157	50	100·000000
5½	5·820105	60	150·000000
6	6·382968	70	233·000000
6½	6·951871	80	400·000000
7	7·526881	90	900·000000
7½	8·108108	100	Infinite
8	8·695652	—	—

The system of discounting bills is intended to be the sale of *bonâ fide* debts for work done, or for property actually transferred from one party to another, and there is nothing that requires more sleepless vigilance on the part of the banker than to take

care that the debts he buys are genuine and not fictitious. When bills are offered for sale, he ought to know whose debt it is that he is buying, and he ought to be able to form some conjecture as to the course of dealing between the parties, which could give rise to the bill. Bills should not only be among traders, but only according to a particular course of trade. We will speak of real debts in the first place: and these may arise in a number of different ways. First between traders in the same business, and, secondly, between traders in different species of business, but yet for work done. If we take the case of manufactured or imported goods, there are usually three stages they pass through—

1. From the manufacturer or importer to the wholesale dealer.
2. From the wholesale dealer to the retail dealer.
3. From the retail dealer to the consumer.

Each transfer of Property may give rise to a bill: but of these the first two are by far the most eligible, and are most peculiarly suitable for a banker to buy: the third should only be purchased with great caution, and but rarely.

There are other cases of good trade bills, when one business requires the supply of different productions, such as a builder requires wood, lead, slates, bricks, and other materials.

Hence a bill of a wood merchant, or a lead merchant, on a builder, would be a very natural proceeding, and apparently a proper trade bill. So if a builder fits up premises for a shopkeeper or merchant, a bill for the work done is a legitimate trade bill. All these bills therefore follow the natural course of trade: and carry the appearance on them of being genuine.

But if a banker sees bills drawn *against* the natural stream of trade, it should instantly rouse his suspicions. Thus a bill drawn by a wholesale dealer upon a manufacturer, or by a retail dealer on a wholesale dealer, would be contrary to the natural course of trade, and should arouse suspicion. A bill drawn by a lead merchant on a builder would be proper on the face of it, if there were nothing to excite suspicion: but a bill of a builder on a lead merchant would be *suspicious*, unless it were satisfactorily explained. Bills of persons doing the same trade upon each other are suspicious on the face of them. Thus a bill of

one manufacturer upon another in the same business, or between one wholesale dealer and another, are evidently suspicious, because there is no usual course of dealing between them. Besides such bills are chiefly generated in speculative times, when commodities change hands repeatedly on speculation that the prices will rise. Bankers should be particularly on their guard against buying bills drawn against articles which are at an extravagant price in times of speculation.

A banker is *primâ facie* influenced by the respectability of his own customer, who is the drawer or indorser of the bill. He ought however to acquire specific information regarding the persons upon whom his customers are in the habit of drawing, and satisfy himself that they are likely to be genuine bills. And this vigilance should never be relaxed in any case whatever. We hold it to be utterly contrary to all sound banking to take bills merely on the supposed respectability of the customer. But we believe it to be far too common a practice to look merely to the customer's account. Customers begin by getting the character of being respectable—they bring perhaps good bills at first—and keep good balances: and their bills are punctually met. This regularity and punctuality are very apt to throw a banker off his guard. He thinks his customer a most respectable man doing a good business: all the bills are taken to be trade bills. By and by the customer applies for an increased discount limit, on account of his flourishing business. The banker is only too happy to accommodate so promising a customer. His discounts swell and his balances diminish, but still his bills are well met. However the time comes, perhaps when the banker thinks it prudent to contract some of his accounts, and this may be one which he thinks it expedient to reduce: and then, perhaps he makes the pleasant discovery, that there are no such persons at all as the acceptors, and that the funds for meeting all these bills have been got from himself!

Such cases as these are not unlikely to happen when London houses supply small country tradesmen and draw upon them. When a man has established a good character, it is impossible to require information about every bill before it is discounted: but we do not hesitate to say, that it is of the first importance that a

banker should be constantly probing his customer's accounts, and get information of the persons they draw upon. It was wittily said by some one (Lord Halifax we believe) "that man in this world is saved chiefly by *want* of faith." This is eminently true of banking. A banker should be the most suspicious of mortals: he should have implicit faith in no man. The amount of villainy and rascality which is practised by means of accommodation and fictitious and forged bills would exceed belief, if such disclosures were made public. However it is contrary to the policy of bankers to allow it to be known how they are robbed and cheated. Their interest covers a multitude of sins. If criminals were prosecuted according to their merits the calendar would swell up to a frightful extent. There is, probably, no class of persons who see felonies committed so frequently as bankers, and are necessitated to let them go unrepressed and unpunished. And there is reason to fear that such things are encouraged by the too easy faith reposed in their customers by bankers. If bankers laid out more expenditure in the "Intelligence department," we believe it would be amply repaid, and many would have been cut short in a career of crime, of accumulated robberies, which generally terminate in disaster to the bank.

As it is contrary to all sound principles of banking to discount bills solely on the customer's respectability, as appearing from his account, so any customer should be regarded with suspicion who is not ready and willing to communicate information to his banker about his affairs. If he will not do so, how can he expect him to give him assistance in the day of trouble? Some customers however are mightily indignant if their banker will not discount their bills on the strength of their names, without regard to the acceptor. But as such a practice is contrary to sound banking, so it will invariably be found that these are not desirable customers to have, and it would be well for a banker quietly to shake off his connection with them, as in the long run, they will probably bring him more loss than profit.

So much for discounting bills of exchange, which consists of buying debts, and not *lending* money. A banker however may not always be able to find a sufficient quantity of eligible debts to buy, to absorb all his disposable funds, or he may not choose

to employ them all in that way : and some of his customers may want a loan on security, who have no bills to sell. The banker takes his customer's promissory note for the sum payable, at the date agreed upon, and also a deposit of the convertible security as collateral. He does not advance on the goods or security itself —that is the business of a pawnbroker—but on the personal obligation of his customer, and the securities are only to be resorted to in case of the failure of his customer to pay his debt. These convertible securities are chiefly Public Stock, Bank Stock, India bonds, Shares in commercial companies, Dock Warrants, Bills of Lading. Whenever he takes any of these as collateral security, he ought to have a power of sale from his customer in case he fails to discharge his obligation. These loans, though they may be sometimes made to respectable customers, are not desirable advances for a banker to make, and he should be chary in encouraging them too much, for they frequently are demanded from the borrower having locked up too much of his funds in an unavailable form. There is then the danger of the obligations not being paid at maturity, and then come requests for renewals, and the banker is either driven to the unpleasant necessity of realising the security, or else having his temporary advance converted into a dead loan.

Persons who seek for such advances habitually are most probably speculating in joint stock companies' shares. They buy up shares on speculation, which they hope will advance in price : they then wish to pledge the shares they have already bought to purchase more : then perhaps a turn in the market comes, and the value of the securities goes down rapidly : they are unable to pay their note : and the banker may perhaps have to realise the shares at a loss. During the railway mania of 1845, a number of banks, called Exchange banks, were founded expressly on this principle of making advances on joint stock companies' shares, especially railway shares. But they were all ruined, and some of them, we believe, suffered frightful losses from the great fall in the value of railway stock.

The objection to such transactions in a banking point of view is that the promissory notes of these persons and their securities are not available to the banker in case he is pressed for money.

Moreover they are barren, isolated transactions, which lead to nothing: whereas a discount account promotes commerce, and grows more profitable as the business of the customer increases.

There is also a very important point to be considered in the shares of many companies which are offered as collateral security, that by the deeds of the companies, no property in the shares passes, except by the registration of the name of the holder in their books. Now while the customer is in good circumstances there may be no danger: but if he becomes bankrupt, the banker is not entitled to retain the shares against the other creditors. If the bankrupt is the registered owner of the shares, his creditors are entitled to them: hence if the banker means to complete his security, he must have himself registered as the owner of the shares, and thereby becomes a partner in a multitude of joint stock companies, of whose condition he can know nothing. Then perhaps, calls are made, and the banker finds that instead of buying a *security*, he has bought a *liability*, and he must pay up the calls or forfeit the shares.

All such advances, therefore, should be made very sparingly, and only with such surplus cash as the banker may not be able to employ in buying good bills: and they should only be made to such persons as he believes to be perfectly safe without the deposit of the security. No banker would make such an advance if he really believed that he would be obliged to realise the security to repay himself, as such proceedings will always make a soreness between himself and his customer, who will be averse to seeing his property sold at a sacrifice as he may call it.

Advances on Dock Warrants and other similar securities, are also liable to many similar objections, and should be very sparingly done, as they subject a banker to much trouble beyond the line of his proper business, and are indications of weakness in a customer. Some customers will expect to have loans upon leasehold or freehold property left as security; but these are most objectionable as collateral security. The process of realising freehold property is so long, uncertain, and tedious that it is perfectly unavailable to a banker in case of necessity. In fact we believe the best rule in all cases of loans with collateral security, (except in such instances as public stock) is to avoid, as much as

possible, making them to any one who is not perfectly good without them.

The objection to cash credits on the part of London bankers is exactly similar to that against advances on mortgage, that in time of pressure it is very difficult to call up the advances, and the securities are not generally realisable. But if cash credits are objectionable, still more are purchases of foreign securities, such as stock in foreign railways. Several of the joint stock banks which failed in 1857 and 1866 sinned grievously in this respect of locking up their funds in foreign securities.

If temporary loans on real property are objectionable as securities to city bankers, much more so are mortgages, which are intended by their nature to last for years. Such transactions are, therefore, chiefly confined to country bankers, and those at the west end of London, whose connections lie more among the landed than the commercial interest, and who are not liable to be called upon so suddenly for cash.

Besides these operations, all of which are founded upon personal liability—all of which contain personal obligations to pay fixed sums of money and are therefore dealings in "currency"—bankers usually invest part of their funds in public securities, which are supposed to be more readily convertible into cash than others. Public securities are of two descriptions—the one "Currency, or Securities for money," such as Exchequer bills—the other "property, or convertible securities," such as the Funds: the former being an engagement on the part of the Exchequer to pay a certain sum of money, like any other bill; and the latter being no engagement to repay any fixed sum at all, but only a fixed rent, or sum, for its use.

Each description of public securities has its advantages and disadvantages. The interest on the Funds will be found, in the long run, to be higher than those on other descriptions of public securities. But there is this serious consideration, that the value of these stocks is very fluctuating, and when any public crisis comes, and bankers wish to *sell* their stock, they may sustain very great loss. In the week of the great crisis of 1847, when many banks had to sell stock to provide for contingencies, the losses were immense when they bought in again to replace it;

and this danger is greatly aggravated by the Bank Act of 1844. Another disadvantage regarding stock is, that all transactions of bankers must become known, as they have to transfer it. Exchequer bills have this advantage, that a banker can deal in them without its being known to any one but the broker. Exchequer bills being like any other promissory notes, an engagement of the government to pay a definite sum of money, it is not probable that the banker can ever lose so much on them as on stock. In order to prevent Exchequer bills falling to a discount, they always bear interest, and, in consequence of this, are usually at a premium: and when by the change in the market rate of interest, they fall to a discount, the interest upon them is usually raised. From the circumstance of their greater steadiness in value the profit of investing in Exchequer bills is less than that from stock.

Bankers collect money from those who have it to spare, and advance it, or its equivalent, to those who require it. They may sometimes themselves be in a similar predicament. Sometimes they may have more by them than they have employment for: sometimes from unusual demands, they may be in want of temporary advances. There is a class of persons who undertake this equalising process—the bill brokers. They go the round of the bankers every morning, and borrow from those who have to lend, and lend to those who want to borrow.

At the present day, the principle of association has been developed to a much greater degree than ever it was before: companies are formed for all manner of purposes. When these companies apply to open an account with a banker, it will generally be found that they want accommodation. But a banker should never accommodate a *company* of whose affairs he can know very little: he should only grant accommodation on the personal liability of the Directors. He should require from them a joint and several note, payable on demand, reserving his right against the company, only as a collateral security. If anything goes wrong with the company, he has an immediate remedy against the Directors. Whereas if the company goes into the winding up Court, it will be a long time before his claim can be settled: and then there may be some technical objection. The contributors may say that the Directors had no

right to draw bills by the constitution of the company; or that they may have exceeded their power: and then he may have to contest his claim through several different courts bringing him nothing but vexation and anxiety.

On the Clearing System.

13. Suppose that any number of the customers of the same bank have transactions amongst themselves, and give each other cheques on their accounts. Then, if the receivers of the cheques do not actually draw out the money, any amount of transactions may be carried on by simple transfers of Credit from one account to the other without a single piece of money being required. The Clearing system is a device by which all the banks which join in it are formed into one huge banking institution for the purpose of transferring Credits from one bank to another, just in the same way as Credits are transferred within the same bank.

The Clearing System arose in this way. Every London banker has every morning claims against most of his neighbours; and of course most of his neighbours have claims against him. It used to be the custom for every banker, the first thing in the morning to send out a number of clerks to collect the claims he had against his neighbours, who of course were obliged to keep cash or notes to meet them. The metropolis is portioned out into districts called "walks," and each clerk had to collect all the bills, cheques, &c. within his walk. These claims are called *banker's charges*, and were paid in Bank Notes, in some cases by cheques drawn upon the Bank of England. This clumsy and barbarous method of settling banker's charges caused a great waste of Bank Notes. Every banker had to keep by him a sufficient amount of bank notes to meet the charges of all his neighbours. It was stated in evidence before the House of Commons that one Bank alone, was obliged to keep £150,000 in Notes for this sole purpose: and if this bank alone was obliged to keep this quantity of notes for this unprofitable purpose, what must have been the total amount wasted in this manner by all the banks?

About 1775 the inconvenience of sending out to collect these

charges led a number of the city bankers to organise an exchange among themselves, on a similar plan to that already practised by the Edinburgh banks. They engaged a room in which their clerks met and exchanged their mutual claims against each other, and paid only the balance in cash, or bank notes. The Bullion Report says that in 1810 there were 46 bankers who cleared; and that the average amount of cheques, bills, &c. which passed through the Clearing House every day was about £4,700,000, and that all the balances on this account were settled by about £220,000 in Bank Notes. In 1854 the Joint Stock Banks were admitted to the clearing house, and in 1864 the Bank of England.

The mode of doing business is as follows—The bills and cheques which each banker holds on the other clearing banks are sorted in separate parcels, and at 10·30 a clerk from each bank arrives at the Clearing House. He delivers to each of the other clerks the obligations he has against his house, and receives from each clerk the obligations due from his own. When these obligations are interchanged, each clerk returns to his own bank. The same process is repeated at 2·30. Each bank has till 4·45 to decide whether it will honour the drafts upon it: if it does not return any drafts upon it before that hour it is held to have made itself liable on them to the clearing house. At 4·45 the business closes and the accounts are made up: and so admirable is the system that not a single Bank Note or sovereign is required for the settlement of the claims.

Each clearing bank keeps an account at the Bank of England, and the Inspector of the Clearing house also keeps one. Printed lists of the clearing banks are made out for each bank, with its own name at the head, and the others are placed in a column in alphabetical order below it. On the left side of the names is a column headed "Debtors," and on the right side a column headed "Creditors." The clerk of the clearing house then makes up the accounts between each bank, and the *difference* only is entered in the balance sheet, according as it is debtor or creditor. A balance is then struck between the debtor and creditor columns, and the paper delivered to the clerk, who takes it back to his own bank. The balance then is not paid to, or received from, the other bankers as formerly, but it is settled with the

clearing house, which keeps an account itself at the Bank of England. The accounts are settled by means of a species of cheque appropriated to the purpose, called *Transfer Tickets*. They are of two colours, white and green: white, when the bank has to pay a balance to the clearing house; green, when it has to receive a balance from it. By this admirable system, transactions to the amount of many millions daily are transferred from one bank to another, without the use of a single Bank Note or coin. In the course of last year Credits to an amount exceeding £6,000,000,000 were thus interchanged between the clearing banks.

In most country towns of any size a similar system of exchanges is organised, and the differences settled by a draft upon London: and in 1860 a clearing establishment was instituted in London for country bankers. All these institutions have the tendency to constitute, as it were, all the banks in the kingdom into one vast banking institution, and to transform the monetary business of the country, into mere transfers of Credit, without the use of Bank Notes and coin.

CHAPTER X.

BILLS OF EXCHANGE ACT, 1882.

BE it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

PART I.

PRELIMINARY.

1. This Act may be cited as the Bills of Exchange Act, 1882.

2. In this Act, unless the context otherwise requires,—

"Acceptance" means an acceptance completed by delivery or notification.

"Action" includes counter claim and set off.

"Banker" includes a body of persons whether incorporated or not who carry on the business of banking.

"Bankrupt" includes any person whose estate is vested in a trustee or assignee under the law for the time being in force relating to bankruptcy.

"Bearer" means the person in possession of a bill or note which is payable to bearer.

"Bill" means bill of exchange, and "note" means promissory note.

"Delivery" means transfer of possession, actual or constructive, from one person to another.

"Holder" means the payee or indorsee of a bill or note who is in possession of it, or the bearer thereof.

"Indorsement" means an indorsement completed by delivery.

"Issue" means the first delivery of a bill or note, complete in form to a person who takes it as a holder.

"Person" includes a body of persons whether incorporated or not.

"Value" means valuable consideration.

"Written" includes printed, and "writing" includes print.

PART II.

BILLS OF EXCHANGE.

Form and Interpretation.

3. (1.) A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer.

(2.) An instrument which does not comply with these conditions, or which orders any act to be done in addition to the payment of money, is not a bill of exchange.

(3.) An order to pay out of a particular fund is not unconditional within the meaning of this section; but an unqualified order to pay, coupled with (*a*) an indication of a particular fund out of which the drawee is to re-imburse himself or a particular account to be debited with the amount, or (*b*) a statement of the transaction which gives rise to the bill, is unconditional.

(4.) A bill is not invalid by reason—

(*a*) That it is not dated;

(*b*) That it does not specify the value given, or that any value has been given therefor;

(*c*) That it does not specify the place where it is drawn or the place where it is payable.

4. (1.) An inland bill is a bill which is or on the face of it purports to be (*a*) both drawn and payable within the British Islands, or (*b*) drawn within the British Islands upon some person resident therein. Any other bill is a foreign bill.

For the purposes of this Act "British Islands" mean any part of the United Kingdom of Great Britain and Ireland, the islands of Man, Guernsey, Jersey, Alderney, and Sark, and the islands adjacent to any of them being part of the dominions of Her Majesty.

(2.) Unless the contrary appear on the face of the bill the holder may treat it as an inland bill.

5. (1.) A bill may be drawn payable to, or to the order of, the drawer; or it may be drawn payable to, or to the order of, the drawee.

(2.) Where in a bill drawer and drawee are the same person, or where the drawee is a fictitious person or a person not having capacity to contract, the holder may treat the instrument, at his option, either as a bill of exchange or as a promissory note.

6. (1.) The drawee must be named or otherwise indicated in a bill with reasonable certainty.

(2.) A bill may be addressed to two or more drawees whether they are partners or not, but an order addressed to two drawees in the alternative or to two or more drawees in succession is not a bill of exchange.

7. (1.) Where a bill is not payable to bearer, the payee must be named or otherwise indicated therein with reasonable certainty.

(2.) A bill may be made payable to two or more payees jointly, or it may be made payable in the alternative to one of two, or one or some of several payees. A bill may also be made payable to the holder of an office for the time being.

(3.) Where the payee is a fictitious or non-existing person the bill may be treated as payable to bearer.

8. (1.) When a bill contains words prohibiting transfer, or indicating an intention that it should not be transferable, it is valid as between the parties thereto, but is not negotiable.

(2.) A negotiable bill may be payable either to order or to bearer.

(3.) A bill is payable to bearer which is expressed to be so payable, or on which the only or last indorsement is an indorsement in blank.

(4.) A bill is payable to order which is expressed to be so payable, or which is expressed to be payable to a particular person, and does not contain words prohibiting transfer or indicating an intention that it should not be transferable.

(5.) Where a bill, either originally or by indorsement, is expressed to be payable to the order of a specified person, and not to him or his order, it is nevertheless payable to him or his order at his option.

9. (1) The sum payable by a bill is a sum certain within the meaning of this Act, although it is required to be paid—

(*a*) With interest;

(*b*) By stated instalments;

(*c*) By stated instalments, with a provision that upon default in payment of any instalment the whole shall become due;

(*d*) According to an indicated rate of exchange or according to a rate of exchange to be ascertained as directed by the bill.

(2.) Where the sum payable is expressed in words and also in figures, and there is a discrepancy between the two, the sum denoted by the words is the amount payable.

(3.) Where a bill is expressed to be payable with interest, unless the instrument otherwise provides, interest runs from the date of the bill, and if the bill is undated from the issue thereof.

10. (1.) A bill is payable on demand—

(*a*) Which is expressed to be payable on demand, or at sight, or on presentation; or

(*b*) In which no time for payment is expressed.

(2.) Where a bill is accepted or indorsed when it is overdue, it shall, as regards the acceptor who so accepts, or any indorser who so indorses it, be deemed a bill payable on demand.

11. A bill is payable at a determinable future time within the meaning of this Act which is expressed to be payable—

(1.) At a fixed period after date or sight.

(2.) On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening may be uncertain.

An instrument expressed to be payable on a contingency is not a bill, and the happening of the event does not cure the defect.

12. Where a bill expressed to be payable at a fixed period after date is issued undated, or where the acceptance of a bill payable at a fixed period after sight is undated, any holder may insert therein the true date of issue or acceptance, and the bill shall be payable accordingly.

Provided that (1) where the holder in good faith and by mistake inserts a wrong date, and (2) in every case where a wrong date is inserted, if the bill subsequently comes into the hands of a holder in due course the bill shall not be avoided thereby, but shall operate and be payable as if the date so inserted had been the true date.

13. (1.) Where a bill or an acceptance or any indorsement on a bill is dated, the date shall, unless the contrary be proved, be deemed to be the true date of the drawing, acceptance, or indorsement, as the case may be.

(2.) A bill is not invalid by reason only that it is ante-dated or post-dated, or that it bears date on a Sunday.

14. Where a bill is not payable on demand the day on which it falls due is determined as follows:

(1.) Three days, called days of grace, are, in every case where the bill itself does not otherwise provide, added to the time of payment as fixed by the bill, and the bill is due and payable on the last day of grace: Provided that—

(*a*) When the last day of grace falls on Sunday, Christmas Day, Good Friday, or a day appointed by Royal proclamation as a public fast or thanksgiving day, the bill is, except in the case hereinafter provided for, due and payable on the preceding business day;

(*b*) When the last day of grace is a bank holiday (other than Christmas Day or Good Friday) under the Bank Holidays Act, 1871, and Acts amending or extending

it, or when the last day of grace is a Sunday and the second day of grace is a Bank Holiday, the bill is due and payable on the succeeding business day.

(2.) Where a bill is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to begin to run and by including the day of payment.

(3.) Where a bill is payable at a fixed period after sight, the time begins to run from the date of the acceptance if the bill be accepted, and from the date of noting or protest if the bill be noted or protested for non-acceptance, or for non-delivery.

(4.) The term "month" in a bill means calendar month.

15. The drawer of a bill and any indorser may insert therein the name of a person to whom the holder may resort in case of need, that is to say, in case the bill is dishonoured by non-acceptance or non-payment. Such person is called the referee in case of need. It is in the option of the holder to resort to the referee in case of need or not as he may think fit.

16. The drawer of a bill, and any indorser, may insert therein an express stipulation—

(1.) Negativing or limiting his own liability to the holder:

(2.) Waiving as regards himself some or all of the holder's duties.

17. (1.) The acceptance of a bill is the signification by the drawee of his assent to the order of the drawer.

(2.) An acceptance is invalid unless it complies with the following conditions, namely:

(*a*) It must be written on the bill and be signed by the drawee. The mere signature of the drawee without additional words is sufficient;

(*b*) It must not express that the drawee will perform his promise by any other means than the payment of money.

18. A bill may be accepted:

(1.) Before it has been signed by the drawer, or while otherwise incomplete:

(2.) When it is overdue, or after it has been dishonoured by previous refusal to accept, or by non-payment:

(3.) When a bill payable after sight is dishonoured by non-acceptance, and the drawee subsequently accepts it, the holder, in the absence of any different agreement, is entitled to have the bill accepted as of the date of first presentment to the drawee for acceptance.

19. (1.) An acceptance is either (*a*) general or (*b*) qualified.

(2.) A general acceptance assents without qualification to the order of the drawer. A qualified acceptance in express terms varies the effect of the bill as drawn.

In particular an acceptance is qualified which is—

(*a*) conditional, that is to say, which makes payment by the acceptor dependent on the fulfilment of a condition therein stated:

(*b*) partial, that is to say, an acceptance to pay part only of the amount for which the bill is drawn:

(*c*) local, that is to say, an acceptance to pay only at a particular specified place:

An acceptance to pay at a particular place is a general acceptance, unless it expressly states that the bill is to be paid there only and not elsewhere:

(*d*) qualified as to time:

(*e*) the acceptance of some one or more of the drawees, but not of all.

20. (1.) Where a simple signature on a blank stamped paper is delivered by the signer in order that it may be converted into a bill, it operates as a primâ facie authority to fill it up as a complete bill for any amount the stamp will cover, using the signature for that of the drawer, or the acceptor, or an indorser; and, in like manner, when a bill is wanting in any material particular, the person in possession of it has a primâ facie authority to fill up the omission in any way he thinks fit.

(2.) In order that any such instrument when completed may be enforceable against any person who became a party thereto prior to its completion, it must be filled up within a reasonable time, and strictly in accordance with the authority given. Reasonable time for this purpose is a question of fact.

Provided that if any such instrument after completion is negotiated to a holder in due course it shall be valid and effectual for

all purposes in his hands, and he may enforce it as if it had been filled up within a reasonable time and strictly in accordance with the authority given.

21. (1.) Every contract on a bill, whether it be the drawer's, the acceptor's, or an indorser's, is incomplete and revocable, until delivery of the instrument in order to give effect thereto.

Provided that where an acceptance is written on a bill, and the drawee gives notice to or according to the directions of the person entitled to the bill that he has accepted it, the acceptance then becomes complete and irrevocable.

(2.) As between immediate parties, and as regards a remote party other than a holder in due course, the delivery—

(*a*) in order to be effectual must be made either by or under the authority of the party drawing, accepting, or indorsing, as the case may be: -

(*b*) may be shown to have been conditional or for a special purpose only, and not for the purpose of transferring the property in the bill.

But if the bill be in the hands of a holder in due course a valid delivery of the bill by all parties prior to him so as to make them liable to him is conclusively presumed.

(3.) Where a bill is no longer in the possession of a party who has signed it as drawer, acceptor, or indorser, a valid and unconditional delivery by him is presumed until the contrary is proved.

Capacity and Authority of Parties.

22. (1.) Capacity to incur liability as a party to a bill is coextensive with capacity to contract.

Provided that nothing in this section shall enable a corporation to make itself liable as drawer, acceptor, or indorser of a bill unless it is competent to it so to do under the law for the time being in force relating to corporations.

(2.) Where a bill is drawn or indorsed by an infant, minor, or corporation having no capacity or power to incur liability on a bill, the drawing or indorsement entitles the holder to receive payment of the bill, and to enforce it against any other party thereto.

23. No person is liable as drawer, indorser, or acceptor of a bill who has not signed it as such: Provided that

(1.) Where a person signs a bill in a trade or assumed name, he is liable thereon as if he had signed it in his own name:

(2.) The signature of the name of a firm is equivalent to the signature by the person so signing of the names of all persons liable as partners in that firm.

24. Subject to the provisions of this Act, where a signature on a bill is forged or placed thereon without the authority of the person whose signature it purports to be, the forged or unauthorised signature is wholly inoperative, and no right to retain the bill or to give a discharge therefor or to enforce payment thereof against any party thereto can be acquired through or under that signature, unless the party against whom it is sought to retain or enforce payment of the bill is precluded from setting up the forgery or want of authority.

Provided that nothing in this section shall affect the ratification of an unauthorised signature not amounting to a forgery.

25. A signature by procuration operates as notice that the agent has but a limited authority to sign, and the principal is only bound by such signature if the agent in so signing was acting within the actual limits of his authority.

26. (1.) Where a person signs a bill as drawer, indorser, or acceptor, and adds words to his signature, indicating that he signs for or on behalf of a principal, or in a representative character, he is not personally liable thereon; but the mere addition to his signature of words describing him as an agent, or as filling a representative character, does not exempt him from personal liability.

(2.) In determining whether a signature on a bill is that of the principal or that of the agent by whose hand it is written, the construction most favourable to the validity of the instrument shall be adopted.

The Consideration for a Bill.

27. (1.) Valuable consideration for a bill may be constituted by,—

(*a*) Any consideration sufficient to support a simple contract;

(*b*) An antecedent debt or liability. Such a debt or liability is deemed valuable consideration whether the bill is payable on demand or at a future time.

(2.) Where value has at any time been given for a bill the holder is deemed to be a holder for value as regards the acceptor and all parties to the bill who became parties prior to such time.

(3.) Where the holder of a bill has a lien on it, arising either from contract or by implication of law, he is deemed to be a holder for value to the extent of the sum for which he has a lien.

28. (1.) An accommodation party to a bill is a person who has signed a bill as drawer, acceptor, or indorser, without receiving value therefor, and for the purpose of lending his name to some other person.

(2.) An accommodation party is liable on the bill to a holder for value; and it is immaterial whether, when such holder took the bill, he knew such party to be an accommodation party or not.

29. (1.) A holder in due course is a holder who has taken a bill, complete and regular on the face of it, under the following conditions, namely—

(*a*) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact;

(*b*) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

(2.) In particular the title of a person who negotiates a bill is defective within the meaning of this Act when he obtained the bill, or the acceptance thereof, by fraud, duress, or force and fear, or other unlawful means, or for an illegal consideration, or when he negotiates it in breach of faith, or under such circumstances as amount to a fraud.

(3.) A holder (whether for value or not), who derives his title to a bill through a holder in due course, and who is not himself a party to any fraud or illegality affecting it, has all the rights of that holder in due course as regards the acceptor and all parties to the bill prior to that holder.

30. (1.) Every party whose signature appears on a bill is primâ facie deemed to have become a party thereto for value.

(2.) Every holder of a bill is primâ facie deemed to be a holder in due course; but if in an action on a bill it is admitted or proved that the acceptance, issue, or subsequent negotiation of the bill is affected with fraud, duress, or force and fear, or illegality, the burden of proof is shifted, unless and until the holder proves that, subsequent to the alleged fraud or illegality, value has in good faith been given for the bill.

Negotiation of Bills.

31. (1.) A bill is negotiated when it is transferred from one person to another in such a manner as to constitute the transferee the holder of the bill.

(2.) A bill payable to bearer is negotiated by delivery.

(3.) A bill payable to order is negotiated by the indorsement of the holder completed by delivery.

(4.) Where the holder of a bill payable to his order transfers it for value without indorsing it, the transfer gives the transferee such title as the transferor had in the bill, and the transferee in addition acquires the right to have the indorsement of the transferor.

(5.) Where any person is under obligation to indorse a bill in a representative capacity, he may indorse the bill in such terms as to negative personal liability.

32. An indorsement in order to operate as a negotiation must comply with the following conditions, namely :

(1.) It must be written on the bill itself and be signed by the indorser. The simple signature of the indorser on the bill, without additional words, is sufficient.

An indorsement written on an allonge, or on a "copy" of a bill issued or negotiated in a country where "copies" are recognised, is deemed to be written on the bill itself.

(2.) It must be an indorsement of the entire bill. A partial indorsement, that is to say, an indorsement which purports to transfer to the indorsee a part only of the amount payable, or which purports to transfer the bill to two or more indorsees severally, does not operate as a negotiation of the bill.

(3.) Where a bill is payable to the order of two or more payees or indorsees who are not partners all must indorse, unless the one indorsing has authority to indorse for the others.

(4.) Where, in a bill payable to order, the payee or indorsee is wrongly designated, or his name is mis-spelt, he may indorse the bill as therein described, adding, if he think fit, his proper signature.

(5.) Where there are two or more indorsements on a bill, each indorsement is deemed to have been made in the order in which it appears on the bill, until the contrary is proved.

(6.) An indorsement may be made in blank or special. It may also contain terms making it restrictive.

33. Where a bill purports to be indorsed conditionally, the condition may be disregarded by the payer, and payment to the indorsee is valid whether the condition has been fulfilled or not.

34. (1.) An indorsement in blank specifies no indorsee, and a bill so indorsed becomes payable to bearer.

(2.) A special indorsement specifies the person to whom, or to whose order, the bill is to be payable.

(3.) The provisions of this Act relating to a payee apply with the necessary modifications to an indorsee under a special indorsement.

(4.) When a bill has been indorsed in blank, any holder may convert the blank indorsement into a special indorsement by writing above the indorser's signature a direction to pay the bill to or to the order of himself or some other person.

35. (1.) An indorsement is restrictive which prohibits the further negotiation of the bill or which expresses that it is a mere authority to deal with the bill as thereby directed and not a transfer of the ownership thereof, as, for example, if a bill be indorsed "Pay D. only," or "Pay D. for the account of X.," or "Pay D. or order for collection."

(2.) A restrictive indorsement gives the indorsee the right to receive payment of the bill and to sue any party thereto that his indorser could have sued, but gives him no power to transfer his rights as indorsee unless it expressly authorises him to do so.

(3.) Where a restrictive indorsement authorises further transfer, all subsequent indorsees take the bill with the same

rights and subject to the same liabilities as the first indorsee under the restrictive indorsement.

36. (1.) Where a bill is negotiable in its origin it continues to be negotiable until it has been (*a*) restrictively indorsed or (*b*) discharged by payment or otherwise.

(2.) Where an overdue bill is negotiated, it can only be negotiated subject to any defect of title affecting it at its maturity, and thenceforward no person who takes it can acquire or give a better title than that which the person from whom he took it had.

(3.) A bill payable on demand is deemed to be overdue within the meaning and for the purposes, of this section, when it appears on the face of it to have been in circulation for an unreasonable length of time. What is an unreasonable length of time for this purpose is a question of fact.

(4.) Except where an indorsement bears date after the maturity of the bill, every negotiation is primâ facie deemed to have been effected before the bill was overdue.

(5.) Where a bill which is not overdue has been dishonoured any person who takes it with notice of the dishonour takes it subject to any defect of title attaching thereto at the time of dishonour, but nothing in this sub-section shall affect the rights of a holder in due course.

37. Where a bill is negotiated back to the drawer, or to a prior indorser or to the acceptor, such party may, subject to the provisions of this Act, re-issue and further negotiate the bill, but he is not entitled to enforce payment of the bill against any intervening party to whom he was previously liable.

38. The rights and powers of the holder of a bill are as follows :

(1.) He may sue on the bill in his own name :

(2.) Where he is a holder in due course, he holds the bill free from any defect of title of prior parties, as well as from mere personal defences available to prior parties among themselves, and may enforce payment against all parties liable on the bill :

(3.) Where his title is defective (*a*) if he negotiates the bill to a holder in due course, that holder obtains a good and complete

title to the bill, and (*b*) if he obtains payment of the bill the person who pays him in due course gets a valid discharge for the bill.

General duties of the Holder.

39. (1). Where a bill is payable after sight, presentment for acceptance is necessary in order to fix the maturity of the instrument.

(2.) Where a bill expressly stipulates that it shall be presented for acceptance, or where a bill is drawn payable elsewhere than at the residence or place of business of the drawee, it must be presented for acceptance before it can be presented for payment.

(3.) In no other case is presentment for acceptance necessary in order to render liable any party to the bill.

(4.) Where the holder of a bill, drawn payable elsewhere than at the place of business or residence of the drawee, has not time, with the exercise of reasonable diligence, to present the bill for acceptance before presenting it for payment on the day that it falls due, the delay caused by presenting the bill for acceptance before presenting it for payment is excused, and does not discharge the drawer and indorsers.

40. (1.) Subject to the provisions of this Act, when a bill payable after sight is negotiated, the holder must either present it for acceptance or negotiate it within a reasonable time.

(2.) If he do not do so, the drawer and all indorsers prior to that holder are discharged.

(3.) In determining what is a reasonable time within the meaning of this section, regard shall be had to the nature of the bill, the usage of trade with respect to similar bills, and the facts of the particular case.

41. (1.) A bill is duly presented for acceptance which is presented in accordance with the following rules:

(*a*) The presentment must be made by or on behalf of the holder to the drawee or to some person authorised to accept or refuse acceptance on his behalf at a reasonable hour on a business day and before the bill is overdue:

(*b*) Where a bill is addressed to two or more drawees, who are not partners, presentment must be made to them all, unless one has authority to accept for all, then presentment may be made to him only:

(*c*) Where the drawee is dead, presentment may be made to his personal representative:

(*d*) Where the drawee is bankrupt, presentment may be made to him or to his trustee:

(*e*) Where authorised by agreement or usage, a presentment through the post-office is sufficient.

(2.) Presentment in accordance with these rules is excused, and a bill may be treated as dishonoured by non-acceptance—

(*a*) Where the drawee is dead or bankrupt, or is a fictitious person or a person not having capacity to contract by bill:

(*b*) Where, after the exercise of reasonable diligence, such presentment cannot be effected:

(*c*) Where although the presentment has been irregular, acceptance has been refused on some other ground.

(3.) The fact that the holder has reason to believe that the bill, on presentment, will be dishonoured does not excuse presentment.

42. (1.) When a bill is duly presented for acceptance and is not accepted within the customary time, the person presenting it must treat it as dishonoured by non-acceptance. If he do not, the holder shall lose his right of recourse against the drawer and indorsers.

43. (1.) A bill is dishonoured by non-acceptance—

(*a*) When it is duly presented for acceptance, and such an acceptance as is prescribed by this Act is refused or cannot be obtained; or

(*b*) When presentment for acceptance is excused and the bill is not accepted.

(2.) Subject to the provisions of this Act, when a bill is dishonoured by non-acceptance, an immediate right of recourse

against the drawer and indorsers accrues to the holder, and no presentment for payment is necessary.

44. (1.) The holder of a bill may refuse to take a qualified acceptance, and if he does not obtain an unqualified acceptance may treat the bill as dishonoured by non-acceptance.

(2.) Where a qualified acceptance is taken, and the drawer or an indorser has not expressly or impliedly authorised the holder to take a qualified acceptance, or does not subsequently assent thereto, such drawer or indorser is discharged from his liability on the bill.

The provisions of this sub-section do not apply to a partial acceptance whereof due notice has been given. Where a foreign bill has been accepted as to part, it must be protested as to the balance.

(3.) When the drawer or indorser of a bill receives notice of a qualified acceptance, and does not within a reasonable time express his dissent to the holder, he shall be deemed to have assented thereto.

45. Subject to the provisions of this Act, a bill must be duly presented for payment. If it be not so presented, the drawer and indorsers shall be discharged.

A bill is duly presented for payment which is presented in accordance with the following rules:

(1.) Where the bill is not payable on demand, presentment must be made on the day it falls due.

(2.) Where the bill is payable on demand, then, subject to the provisions of this Act, presentment must be made within a reasonable time after its issue in order to render the drawer liable, and within a reasonable time after its indorsement in order to render the indorser liable.

In determining what is a reasonable time, regard shall be had to the nature of the bill, the usage of trade with regard to similar bills, and the facts of the particular case.

(3.) Presentment must be made by the holder or by some person authorised to receive payment on his behalf at a reasonable hour on a business day, at the proper place as hereinafter defined, either to the person designated by the bill as payer, or to some person authorised to pay or refuse payment on his

behalf, if, with the exercise of reasonable diligence, such person can there be found.

(4.) A bill is presented at the proper place:

(*a*) Where a place of payment is specified in the bill and the bill is there presented:

(*b*) Where no place of payment is specified, but the address of the drawee or acceptor is given in the bill, and the bill is there presented:

(*c*) Where no place of payment is specified and no address given, and the bill is presented at the drawee's or acceptor's place of business if known, and if not, at his ordinary residence if known:

(*d*) In any other case, if presented to the drawee or acceptor wherever he can be found, or if presented at his last known place of business or residence.

(5.) Where a bill is presented at the proper place, and after the exercise of reasonable diligence, no person authorised to pay or refuse payment can be found there, no further presentment to the drawee or acceptor is required.

(6.) Where a bill is drawn upon or accepted by two or more persons who are not partners, and no place of payment is specified, presentment must be made to them all.

(7.) Where the drawee or acceptor of a bill is dead, and no place of payment is specified, presentment must be made to a personal representative, if such there be, and with the exercise of reasonable diligence he can be found.

(8.) Where authorised by agreement or usage, a presentment through the post-office is sufficient.

46. (1.) Delay in making presentment for payment is excused when the delay is caused by circumstances beyond the control of the holder, and not imputable to his default, misconduct, or negligence. When the cause of delay ceases to operate, presentment must be made with reasonable diligence.

(2.) Presentment for payment is dispensed with—

(*a*) Where, after the exercise of reasonable diligence presentment, as required by this Act, cannot be effected:

The fact that the holder has reason to believe that the bill

will, on presentment, be dishonoured, does not dispense with the necessity for presentment:

(*b*) Where the drawee is a fictitious person:

(*c*) As regards the drawer, where the drawee or acceptor is not bound, as between himself and the drawer, to accept or pay the bill, and the drawer has no reason to believe that the bill would be paid if presented:

(*d*) As regards an indorser, where the bill was accepted or made for the accommodation of that indorser, and he has no reason to expect that the bill would be paid if presented:

(*e*) By waiver of presentment, expressed or implied.

47. (1.) A bill is dishonoured by non-payment (*a*) when it is duly presented for payment and payment is refused or cannot be obtained, or (*b*) when presentment is excused and the bill is overdue and unpaid.

(2.) Subject to the provisions of this Act, when a bill is dishonoured by non-payment, an immediate right of recourse against the drawer and indorsers accrues to the holder.

48. Subject to the provisions of this Act, when a bill has been dishonoured by non-acceptance or by non-payment, notice of dishonour must be given to the drawer and each indorser, and any drawer or indorser to whom such notice is not given is discharged; Provided that—

(1.) Where a bill is dishonoured by non-acceptance, and notice of dishonour is not given, the rights of a holder in due course subsequent to the omission shall not be prejudiced by the omission.

(2.) Where a bill is dishonoured by non-acceptance, and due notice of dishonour is given, it shall not be necessary to give notice of a subsequent dishonour by non-payment unless the bill shall in the meantime have been accepted.

49. Notice of dishonour in order to be valid and effectual must be given in accordance with the following rules:

(1.) The notice must be given by or on behalf of the holder, or by or on behalf of an indorser who, at the time of giving it, is himself liable on the bill.

(2.) Notice of dishonour may be given by any agent either in his own name or in the name of any party entitled to give notice, whether that party be his principal or not.

(3.) Where the notice is given by or on behalf of the holder, it enures for the benefit of all subsequent holders and all prior indorsers, who have a right of recourse against the party to whom it is given.

(4.) Where notice is given by or on behalf of an indorser entitled to give notice as herein-before provided, it enures for the benefit of the holder and all indorsers subsequent to the party to whom notice is given.

(5.) The notice may be given in writing or by personal communication, and may be given in any terms which sufficiently identify the bill and intimate that the bill has been dishonoured by non-acceptance or non-payment.

(6.) The return of a dishonoured bill to the drawer or an indorser is, in point of form, deemed a sufficient notice of dishonour.

(7.) A written notice need not be signed, and an insufficient written notice may be supplemented and validated by verbal communication. A misdescription of the bill shall not vitiate the notice unless the party to whom the notice is given is in fact misled thereby.

(8.) Where notice of dishonour is required to be given to any person, it may be given either to the party himself, or to his agent in that behalf.

(9.) Where the drawer or indorser is dead, and the party giving notice knows it, the notice must be given to a personal representative, if such there be, and with the exercise of reasonable diligence he can be found.

(10.) Where the drawer or indorser is bankrupt, notice may be given either to the party himself or to the trustee.

(11.) Where there are two or more drawers or indorsers who are not partners, notice must be given to each of them, unless one of them has authority to receive such notice for the others.

(12.) The notice may be given as soon as the bill is dishonoured and must be given within a reasonable time thereafter.

In the absence of special circumstances notice is not deemed to have been given within a reasonable time, unless—

(*a*) Where the person giving and the person to receive notice reside in the same place, the notice is given or sent off in time to reach the latter on the day after the dishonour of the bill:

(*b*) Where the person giving and the person to receive notice reside in different places, the notice is sent off on the day after the dishonour of the bill, if there be a post at a convenient hour on that day, and if there be no such post on that day, then by the next post thereafter.

(13.) Where a bill when dishonoured is in the hands of an agent, he may either himself give notice to the parties liable on the bill, or he may give notice to his principal. If he give notice to his principal, he must do so within the same time as if he were the holder, and the principal upon receipt of such notice has himself the same time for giving notice as if the agent had been an independent holder.

(14.) Where a party to a bill receives due notice of dishonour, he has after the receipt of such notice the same period of time for giving notice to antecedent parties that the holder has after the dishonour.

(15.) Where a notice of dishonour is duly addressed and posted, the sender is deemed to have given due notice of dishonour, notwithstanding any miscarriage by the post-office.

50. (1.) Delay in giving notice of dishonour is excused where the delay is caused by circumstances beyond the control of the party giving notice, and not imputable to his default, misconduct, or negligence. When the cause of delay ceases to operate, the notice must be given with reasonable diligence.

(2.) Notice of dishonour is dispensed with—

(*a*) When, after the exercise of reasonable diligence, notice as required by this Act cannot be given to or does not reach the drawer or indorser sought to be charged:

(*b*) By waiver express or implied: notice of dishonour may be waived before the time of giving notice has arrived, or after the omission to give due notice:

(*c*) As regards the drawer, in the following cases, namely, (1) where drawer and drawee are the same person, (2) where the drawee is a fictitious person or a person not having capacity to contract, (3) where the drawer is the person to whom the bill is presented for payment, (4) where the drawee or acceptor is as between himself and the drawer under no obligation to accept or pay the bill, (5) where the drawer has countermanded payment:

(*d*) As regards the indorser, in the following cases, namely, (1) where the drawee is a fictitious person or a person not having capacity to contract and the indorser was aware of the fact at the time he indorsed the bill, (2) where the indorser is the person to whom the bill is presented for payment, (3) where the bill was accepted or made for his accommodation.

51. (1.) Where an inland bill has been dishonoured, it may, if the holder think fit, be noted for non-acceptance or non-payment, as the case may be; but it shall not be necessary to note or protest any such bill in order to preserve the recourse against the drawer or indorser.

(2.) Where a foreign bill, appearing on the face of it to be such, has been dishonoured by non-acceptance, it must be duly protested for non-acceptance, and where such a bill, which has not been previously dishonoured by non-acceptance, is dishonoured by non-payment, it must be duly protested for non-payment. If it be not so protested, the drawer and indorsers are discharged. Where a bill does not appear on the face of it to be a foreign bill, protest thereof in case of dishonour is unnecessary.

(3.) A bill which has been protested for non-acceptance may be subsequently protested for non-payment.

(4.) Subject to the provisions of this Act, when a bill is noted or protested, it must be noted on the day of its dishonour. When a bill has been duly noted, the protest may be subsequently extended as of the date of the noting.

(5.) Where the acceptor of a bill becomes bankrupt or insolvent or suspends payment before it matures, the holder may

cause the bill to be protested for better security against the drawer and indorsers.

(6.) A bill must be protested at the place where it is dishonoured: Provided that—

(*a*) When a bill is presented through the post-office, and returned by post dishonoured, it may be protested at the place to which it is returned and on the day of its return if received during business hours, and if not received during business hours, then not later than the next business day:

(*b*) When a bill drawn payable at the place of business or residence of some person other than the drawee, has been dishonoured by non-acceptance, it must be protested for non-payment at the place where it is expressed to be payable, and no further presentment for payment to, or demand on, the drawee is necessary.

(7.) A protest must contain a copy of the bill, and must be signed by the notary making it, and must specify—

(*a*) The person at whose request the bill is protested:

(*b*) The place and date of protest, the cause or reason for protesting the bill, the demand made, and the answer given, if any, or the fact that the drawee or acceptor could not be found.

(8.) Where a bill is lost or destroyed, or is wrongly detained from the person entitled to hold it, protest may be made on a copy or written particulars thereof.

(9.) Protest is dispensed with by any circumstance which would dispense with notice of dishonour. Delay in noting or protesting is excused when the delay is caused by circumstances beyond the control of the holder, and not imputable to his default, misconduct, or negligence. When the cause of delay ceases to operate, the bill must be noted or protested with reasonable diligence.

52. (1.) When a bill is accepted generally, presentment for payment is not necessary in order to render the acceptor liable.

(2.) When by the terms of a qualified acceptance presentment

for payment is required, the acceptor, in the absence of an express stipulation to that effect, is not discharged by the omission to present the bill for payment on the day that it matures.

(3.) In order to render the acceptor of a bill liable it is not necessary to protest it, or that notice of dishonour should be given to him.

(4.) Where the holder of a bill presents it for payment, he shall exhibit the bill to the person from whom he demands payment, and when a bill is paid the holder shall forthwith deliver it up to the party paying it.

Liabilities of Parties.

53. (1.) A bill, of itself, does not operate as an assignment of funds in the hands of the drawee available for the payment thereof, and the drawee of a bill who does not accept as required by this Act is not liable on the instrument. This sub-section shall not extend to Scotland.

(2.) In Scotland, where the drawee of a bill has in his hands funds available for the payment thereof, the bill operates as an assignment of the sum for which it is drawn in favour of the holder, from the time when the bill is presented to the drawee.

54. The acceptor of a bill, by accepting it—

(1.) Engages that he will pay it according to the tenor of his acceptance:

(2.) Is precluded from denying to a holder in due course:

(*a*) The existence of the drawer, the genuineness of his signature, and his capacity and authority to draw the bill;

(*b*) In the case of a bill payable to drawer's order, the then capacity of the drawer to indorse, but not the genuineness or validity of his indorsement;

(*c*) In the case of a bill payable to the order of a third person, the existence of the payee and his then capacity to indorse, but not the genuineness or validity of his indorsement.

55. (1.) The drawer of a bill by drawing it—

(*a*) Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dis-

honoured he will compensate the holder or any indorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken;

(*b*) Is precluded from denying to a holder in due course the existence of the payee and his then capacity to indorse.

(2.) The indorser of a bill by indorsing it—

(*a*) Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate the holder or a subsequent indorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken;

(*b*) Is precluded from denying to a holder in due course the genuineness and regularity in all respects of the drawer's signature and all previous indorsements;

(*c*) Is precluded from denying to his immediate or a subsequent indorsee that the bill was at the time of his indorsement a valid and subsisting bill, and that he had then a good title thereto.

56. Where a person signs a bill otherwise than as drawer or acceptor, he thereby incurs the liabilities of an indorser to a holder in due course.

57. Where a bill is dishonoured, the measure of damages, which shall be deemed to be liquidated damages, shall be as follows:

(1.) The holder may recover from any party liable on the bill, and the drawer who has been compelled to pay the bill may recover from the acceptor, and an indorser who has been compelled to pay the bill may recover from the acceptor or from the drawer, or from a prior indorser—

(*a*) The amount of the bill:

(*b*) Interest thereon from the time of presentment for payment if the bill is payable on demand, and from the maturity of the bill in any other case:

(*c*) The expenses of noting, or, when protest is necessary and the protest has been extended, the expenses of protest.

(2.) In the case of a bill which has been dishonoured abroad, in lieu of the above damages, the holder may recover from the drawer or an indorser, and the drawer or an indorser who has been compelled to pay the bill may recover from any party liable to him the amount of the re-exchange with interest thereon until the time of payment.

(3.) Where by this Act interest may be recovered as damages, such interest may, if justice require it, be withheld wholly or in part, and where a bill is expressed to be payable with interest at a given rate, interest as damages may or may not be given at the same rate as interest proper.

58. (1.) Where the holder of a bill payable to bearer negotiates it by delivery without indorsing it, he is called a "transferor by delivery."

(2.) A transferor by delivery is not liable on the instrument.

(3.) A transferor by delivery who negotiates a bill thereby warrants to his immediate transferee, being a holder for value, that the bill is what it purports to be, that he has a right to transfer it, and that at the time of transfer he is not aware of any fact which renders it valueless.

Discharge of Bill.

59. (1.) A bill is discharged by payment in due course by or on behalf of the drawee or acceptor.

"Payment in due course" means payment made at or after the maturity of the bill to the holder thereof in good faith and without notice that his title to the bill is defective.

(2.) Subject to the provisions hereinafter contained, when a bill is paid by the drawer or an indorser it is not discharged; but

(*a*) Where a bill payable to, or to the order of, a third party is paid by the drawer, the drawer may enforce payment thereof against the acceptor, but may not re-issue the bill;

(*b*) Where a bill is paid by an indorser, or where a bill payable to drawer's order is paid by the drawer, the party paying it is remitted to his former rights as regards the acceptor or antecedent parties, and he may, if he think fit, strike out his own and subsequent indorsements, and again negotiate the bill.

(3.) Where an accommodation bill is paid in due course by the party accommodated, the bill is discharged.

60. When a bill payable to order on demand is drawn on a banker, and the banker on whom it is drawn pays the bill in good faith and in the ordinary course of business, it is not incumbent on the banker to show that the indorsement of the payee or any subsequent indorsement was made by or under the authority of the person whose indorsement it purports to be, and the banker is deemed to have paid the bill in due course, although such indorsement has been forged or made without authority.

61. When the acceptor of a bill is or becomes the holder of it at or after its maturity, in his own right, the bill is discharged.

62. (1.) When the holder of a bill at or after its maturity absolutely and unconditionally renounces his rights against the acceptor, the bill is discharged.

The renunciation must be in writing, unless the bill is delivered up to the acceptor.

(2.) The liabilities of any party to a bill may in like manner be renounced by the holder before, at, or after its maturity; but nothing in this section shall affect the rights of a holder in due course without notice of the renunciation.

63. (1.) Where a bill is intentionally cancelled by the holder or his agent, and the cancellation is apparent thereon, the bill is discharged.

(2.) In like matter any party liable on a bill may be discharged by the intentional cancellation of his signature by the holder or his agent. In such case any indorser who would have had a right of recourse against the party whose signature is cancelled, is also discharged.

(3.) A cancellation made unintentionally, or under a mistake,

or without the authority of the holder, is inoperative; but where a bill or any signature thereon appears to have been cancelled, the burden of proof lies on the party who alleges that the cancellation was made unintentionally, or under a mistake, or without authority.

64. (1.) Where a bill or acceptance is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorised, or assented to the alteration, and subsequent indorsers:

Provided that,

Where a bill has been materially altered, but the alteration is not apparent, and the bill is in the hands of a holder in due course, such holder may avail himself of the bill as if it had not been altered, and may enforce payment of it according to its original tenor.

(2.) In particular the following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and, where a bill has been accepted generally, the addition of a place of payment without the acceptor's assent.

Acceptance and Payment for Honour.

65. (1.) Where a bill of exchange has been protested for dishonour by non-acceptance, or protested for better security, and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the bill suprà protest, for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn.

(2.) A bill may be accepted for honour for part only of the sum for which it is drawn.

(3.) An acceptance for honour suprà protest in order to be valid must—

(*a*) be written on the bill, and indicate that it is an acceptance for honour:

(*b*) be signed by the acceptor for honour.

(4.) Where an acceptance for honour does not expressly

state for whose honour it is made, it is deemed to be an acceptance for the honour of the drawer.

(5.) Where a bill payable after sight is accepted for honour, its maturity is calculated from the date of the noting for non-acceptance, and not from the date of the acceptance for honour.

66. (1.) The acceptor for honour of a bill by accepting it engages that he will, on due presentment, pay the bill according to the tenor of his acceptance, if it is not paid by the drawee, provided it has been duly presented for payment, and protested for non-payment, and that he receives notice of these facts.

(2.) The acceptor for honour is liable to the holder and to all parties to the bill subsequent to the party for whose honour he has accepted.

67. (1.) Where a dishonoured bill has been accepted for honour suprà protest, or contains a reference in case of need, it must be protested for non-payment before it is presented for payment to the acceptor for honour or referee in case of need.

(2.) Where the address of the acceptor for honour is in the same place where the bill is protested for non-payment, the bill must be presented to him not later than the day following its maturity; and where the address of the acceptor for honour is in some place other than the place where is was protested for non-payment, the bill must be forwarded not later than the day following its maturity for presentment to him.

(3.) Delay in presentment or non-presentment is excused by any circumstance which would excuse delay in presentment for payment or non-presentment for payment.

(4.) When a bill of exchange is dishonoured by the acceptor for honour it must be protested for non-payment by him.

68. (1.) Where a bill has been protested for non-payment, any person may intervene and pay it suprà protest for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn.

(2.) Where two or more persons offer to pay a bill for the honour of different parties, the person whose payment will discharge most parties to the bill shall have the preference.

(3.) Payment for honour suprà protest, in order to operate as such and not as a mere voluntary payment, must be attested

by a notarial act of honour, which may be appended to the protest or form an extension of it.

(4.) The notarial act of honour must be founded on a declaration made by the payer for honour, or his agent in that behalf, declaring his intention to pay the bill for honour, and for whose honour he pays.

(5.) Where a bill has been paid for honour, all parties subsequent to the party for whose honour it is paid are discharged, but the payer for honour is subrogated for, and succeeds to both the rights and duties of, the holder, as regards the party for whose honour he pays and all parties liable to that party.

(6.) The payer for honour, on paying to the holder the amount of the bill and the notarial expenses incidental to its dishonour, is entitled to receive both the bill itself and the protest. If the holder do not on demand deliver them up, he shall be liable to the payer for honour in damages.

(7.) Where the holder of a bill refuses to receive payment suprà protest, he shall lose his right of recourse against any party who would have been discharged by such payment.

Lost Instruments.

69. Where a bill has been lost before it is overdue, the person who was the holder of it may apply to the drawer to give him another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost shall be found again.

If the drawer on request as aforesaid refuses to give such duplicate bill, he may be compelled to do so.

70. In any action or proceeding upon a bill, the court or a judge may order that the loss of the instrument shall not be set up, provided an indemnity be given to the satisfaction of the court or judge against the claims of any other person upon the instrument in question.

Bill in a Set.

71. (1.) Where a bill is drawn in a set, each part of the set being numbered, and containing a reference to the other parts, the whole of the parts constitute one bill.

(2.) Where the holder of a set indorses two or more parts to different persons, he is liable on every such part, and every indorser subsequent to him is liable on the part he has himself indorsed as if the said parts were separate bills.

(3.) Where two or more parts of a set are negotiated to different holders in due course, the holder whose title first accrues is as between such holders deemed the true owner of the bill; but nothing in this sub-section shall affect the rights of a person who in due course accepts or pays the part first presented to him.

(4.) The acceptance may be written on any part, and it must be written on one part only.

If the drawee accepts more than one part, and such accepted parts get into the hands of different holders in due course, he is liable on every such part as if it were a separate bill.

(5.) When the acceptor of a bill drawn in a set pays it without requiring the part bearing his acceptance to be delivered up to him, and that part at maturity is outstanding in the hands of a holder in due course, he is liable to the holder thereof.

(6.) Subject to the preceding rules, where any one part of a bill drawn in a set is discharged by payment or otherwise, the whole bill is discharged.

Conflict of Laws.

72. Where a bill drawn in one country is negotiated, accepted, or payable in another, the rights, duties, and liabilities of the parties thereto are determined as follows:

(1.) The validity of a bill as regards requisites in form is determined by the law of the place of issue, and the validity as regards requisites in form of the supervening contracts, such as acceptance, or indorsement, or acceptance supra protest, is determined by the law of the place where such contract was made:

Provided that—

(*a*) Where a bill is issued out of the United Kingdom it is not invalid by reason only that it is not stamped in accordance with the law of the place of issue:

(*b*) Where a bill, issued out of the United Kingdom, conforms, as regards requisites in form, to the law of the United Kingdom, it may, for the purpose of enforcing payment thereof, be treated as valid as between all persons who negotiate, hold, or become parties to it in the United Kingdom.

(2.) Subject to the provisions of this Act, the interpretation of the drawing, indorsement, acceptance, or acceptance supra protest of a bill is determined by the law of the place where such contract is made.

Provided that where an inland bill is indorsed in a foreign country the indorsement shall, as regards the payer, be interpreted according to the law of the United Kingdom.

(3.) The duties of the holder with respect to presentment for acceptance or payment and the necessity for or sufficiency of a protest or notice of dishonour, or otherwise, are determined by the law of the place where the act is done or the bill is dishonoured.

(4.) Where a bill is drawn out of but payable in the United Kingdom and the sum payable is not expressed in the currency of the United Kingdom, the amount shall, in the absence of some express stipulation, be calculated according to the rate of exchange for sight drafts at the place of payment on the day the bill is payable.

(5.) Where a bill is drawn in one country and is payable in another, the due date thereof is determined according to the law of the place where it is payable.

PART III.

CHEQUES ON A BANKER.

73. A cheque is a bill of exchange drawn on a banker payable on demand.

Except as otherwise provided in this Part, the provisions of this Act applicable to a bill of exchange payable on demand apply to a cheque.

74. Subject to the provisions of this Act—

(1.) Where a cheque is not presented for payment within a reasonable time of its issue, and the drawer or the person on whose account it is drawn had the right at the time of such presentment as between him and the banker to have the cheque paid and suffers actual damage through the delay, he is discharged to the extent of such damage, that is to say, to the extent to which such drawer or person is a creditor of such banker to a larger amount than he would have been had such cheque been paid.

(2.) In determining what is a reasonable time regard shall be had to the nature of the instrument, the usage of trade and of bankers, and the facts of the particular case.

(3.) The holder of such cheque as to which such drawer or person is discharged shall be a creditor, in lieu of such drawer or person, of such banker to the extent of such discharge, and entitled to recover the amount from him.

75. The duty and authority of a banker to pay a cheque drawn on him by his customer are determined by—

(1.) Countermand of payment:

(2). Notice of the customer's death.

Crossed Cheques.

76. (1.) Where a cheque bears across its face an addition of—

(*a*) the words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or

(*b*) two parallel transverse lines simply, either with or without the words "not negotiable,"

that addition constitutes a crossing, and the cheque is crossed generally.

(2.) Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," that addition constitutes a crossing, and the cheque is crossed specially and to that banker.

77. (1.) A cheque may be crossed generally or specially by the drawer.

(2.) Where a cheque is uncrossed, the holder may cross it generally or specially.

(3.) Where a cheque is crossed generally, the holder may cross it specially.

(4.) Where a cheque is crossed generally or specially, the holder may add the words "not negotiable."

(5.) Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker for collection.

(6.) Where an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself.

78. A crossing authorised by this Act is a material part of the cheque; it shall not be lawful for any person to obliterate or, except as authorised by this Act, to add to or alter the crossing.

79. (1.) Where a cheque is crossed specially to more than one banker, except when crossed to an agent for collection being a banker, the banker on whom it is drawn shall refuse payment thereof.

(2.) Where the banker on whom a cheque is drawn which is so crossed nevertheless pays the same, or pays a cheque crossed generally otherwise than to a banker, or if crossed specially otherwise than to the banker to whom it is crossed, or his agent for collection being a banker, he is liable to the true owner of the cheque for any loss he may sustain owing to the cheque having been so paid:

Provided that where a cheque is presented for payment which does not at the time of presentment appear to be crossed, or to have had a crossing which has been obliterated, or to have been added to or altered otherwise than as authorised by this Act, the banker paying the cheque in good faith and without negligence shall not be responsible or incur any liability, nor shall the payment be questioned by reason of the cheque having been crossed, or of the crossing having been obliterated or having been added to or altered otherwise than as authorised by this Act, and of payment having been made otherwise than to a banker or to the banker to whom the cheque is or was crossed,

or to his agent for collection being a banker, as the case may be.

80. Where the banker on whom a crossed cheque is drawn in good faith and without negligence pays it, if crossed generally, to a banker, and if crossed specially, to the banker to whom it is crossed, or his agent for collection being a banker, the banker paying the cheque, and, if the cheque has come into the hands of the payee, the drawer, shall respectively be entitled to the same rights and be placed in the same position as if payment of the cheque had been made to the true owner thereof.

81. Where a person takes a crossed cheque which bears on it the words "not negotiable," he shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had.

82. Where a banker in good faith and without negligence receives payment for a customer of a cheque crossed generally or specially to himself, and the customer has no title or a defective title thereto, the banker shall not incur any liability to the true owner of the cheque by reason only of having received such payment.

PART IV.

PROMISSORY NOTES.

83. (1.) A promissory note is an unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer.

(2.) An instrument in the form of a note payable to maker's order is not a note within the meaning of this section unless and until it is indorsed by the maker.

(3.) A note is not invalid by reason only that it contains also a pledge of collateral security with authority to sell or dispose thereof.

(4.) A note which is, or on the face of it purports to be, both made and payable within the British Islands is an inland note. Any other note is a foreign note.

84. A promissory note is inchoate and incomplete until delivery thereof to the payee or bearer.

85. (1.) A promissory note may be made by two or more makers, and they may be liable thereon jointly, or jointly and severally, according to its tenor.

(2.) Where a note runs "I promise to pay" and is signed by two or more persons it is deemed to be their joint and several note.

86. (1.) Where a note payable on demand has been indorsed, it must be presented for payment within a reasonable time of the indorsement. If it be not so presented the indorser is discharged.

(2.) In determining what is a reasonable time, regard shall be had to the nature of the instrument, the usage of trade, and the facts of the particular case.

(3.) Where a note payable on demand is negotiated, it is not deemed to be overdue, for the purpose of affecting the holder with defects of title of which he had no notice, by reason that it appears that a reasonable time for presenting it for payment has elapsed since its issue.

87. (1.) Where a promissory note is in the body of it made payable at a particular place, it must be presented for payment at that place in order to render the maker liable. In any other case, presentment for payment is not necessary in order to render the maker liable.

(2.) Presentment for payment is necessary in order to render the indorser of a note liable.

(3.) Where a note is in the body of it made payable at a particular place, presentment at that place is necessary in order to render an indorser liable; but when a place of payment is indicated by way of memorandum only, presentment at that place is sufficient to render the indorser liable, but a presentment to the maker elsewhere, if sufficient in other respects, shall also suffice.

88. The maker of a promissory note by making it—

(1.) Engages that he will pay it according to its tenor;

(2.) Is precluded from denying to a holder in due course the existence of the payee and his then capacity to indorse.

89. (1.) Subject to the provisions in this Part, and except as by this section provided, the provisions of this Act relating to bills of exchange apply, with the necessary modifications, to promissory notes.

(2.) In applying those provisions the maker of a note shall be deemed to correspond with the acceptor of a bill, and the first indorser of a note shall be deemed to correspond with the drawer of an accepted bill payable to drawer's order.

(3.) The following provisions as to bills do not apply to notes; namely, provisions relating to—

(*a*) Presentment for acceptance;
(*b*) Acceptance;
(*c*) Acceptance suprà protest;
(*d*) Bills in a set.

(4.) Where a foreign note is dishonoured, protest thereof is unnecessary.

PART V.

SUPPLEMENTARY.

90. A thing is deemed to be done in good faith, within the meaning of this Act, where it is in fact done honestly, whether it is done negligently or not.

91. (1.) Where, by this Act, any instrument or writing is required to be signed by any person, it is not necessary that he should sign it with his own hand, but it is sufficient if his signature is written thereon by some other person by or under his authority.

(2.) In the case of a corporation, where, by this Act, any instrument or writing is required to be signed, it is sufficient if the instrument or writing be sealed with the corporate seal.

But nothing in this section shall be construed as requiring the bill or note of a corporation to be under seal.

92. Where, by this Act, the time limited for doing any act or thing is less than three days, in reckoning time non-business days are excluded.

"Non-business days" for the purposes of this Act mean—

(*a*) Sunday, Good Friday, Christmas Day;
(*b*) A bank holiday under the Bank Holidays Act, 1871, or Acts amending it;
(*c*) A day appointed by Royal proclamation as a public fast or thanksgiving day.

Any other day is a business day.

93. For the purposes of this Act, where a bill or note is required to be protested within a specified time or before some further proceeding is taken, it is sufficient that the bill has been noted for protest before the expiration of the specified time or the taking of the proceeding; and the formal protest may be extended at any time thereafter as of the date of the noting.

94. Where a dishonoured bill or note is authorised or required to be protested, and the services of a notary cannot be obtained at the place where the bill is dishonoured, any householder or substantial resident of the place may, in the presence of two witnesses, give a certificate, signed by them, attesting the dishonour of the bill, and the certificate shall in all respects operate as if it were a formal protest of the bill.

The form given in Schedule I. to this Act may be used with necessary modifications, and if used shall be sufficient.

95. The provisions of this Act as to crossed cheques shall apply to a warrant for payment of dividend.

96. The enactments mentioned in the second schedule to this Act are hereby repealed as from the commencement of this Act to the extent in that schedule mentioned.

Provided that such repeal shall not affect anything done or suffered, or any right, title, or interest acquired or accrued before the commencement of this Act, or any legal proceeding or remedy in respect of any such thing, right, title, or interest.

97. (1.) The rules in bankruptcy relating to bills of exchange, promissory notes, and cheques, shall continue to apply thereto notwithstanding anything in this Act contained.

(2.) The rules of common law, including the law merchant, save in so far as they are inconsistent with the express provisions of this Act, shall continue to apply to bills of exchange, promissory notes, and cheques.

(3.) Nothing in this Act or in any repeal effected thereby shall affect—

(*a*) The provisions of the Stamp Act, 1870, or Acts amending it, or any law or enactment for the time being in force relating to the revenue:

(*b*) The provisions of the Companies Act, 1862, or Acts amending it, or any Act relating to joint stock banks or companies:

(*c*) The provisions of any Act relating to or confirming the privileges of the Bank of England or the Bank of Ireland respectively:

(*d*) The validity of any usage relating to dividend warrants, or the indorsements thereof.

98. Nothing in this Act or in any repeal effected thereby shall extend or restrict or in any way alter or affect the law and practice in Scotland in regard to summary diligence.

99. Where any act or document refers to any enactment repealed by this Act, the Act or document shall be construed, and shall operate, as if it referred to the corresponding provisions of this Act.

100. In any judicial proceeding in Scotland, any fact relating to a bill of exchange, bank cheque, or promissory note, which is relevant to any question of liability thereon, may be proved by parole evidence: Provided that this enactment shall not in any way affect the existing law and practice whereby the party who is, according to the tenor of any bill of exchange, bank cheque, or promissory note, debtor to the holder in the amount thereof may be required, as a condition of obtaining a sist of diligence, or suspension of a charge, or threatened charge, to make such consignation, or to find such caution as the court or judge before whom the cause is depending may require.

This section shall not apply to any case where the bill of exchange, bank cheque, or promissory note has undergone the sexennial prescription.

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Form of protest which may be used when the services of a notary cannot be obtained.

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(Signed) *A. B.*

G. H.
J. K. } Witnesses.

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